



Arboretum Wealth & Trust Management

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It's amazing how pain can focus your attention. Years of relatively good market returns tend to lull investors into a malaise regarding risk. If returns are good, risk tends to be ignored. However, the end of 2018 brought newly focused attention on Fed policy and market volatility to the average investor, along with the hard-won but short-remembered realization that risk is important.

We use risk as the foundation of our investment policy. Through our conversations with you, we set risk levels and factors uniquely appropriate to you. From there, we build a portfolio with the highest expected return possible within those risk parameters. With this method, we help clients avoid panicked feelings and sleepless nights during market downturns.

Just like the rest of our company, our approach is unique in that it focuses entirely on your outcome. As an employee-owned fiduciary, we are beholden to no one's interests but yours.

Respectfully yours,
David Richter, CFA

Winter 2019

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ARBORETUM
WEALTH & TRUST MANAGEMENT

The Arboretum Almanac

Winter 2019

Famous People Who Failed to Plan Properly



It's almost impossible to overstate the importance of taking the time to plan your estate. Nevertheless, it's surprising how many American adults haven't done so. You

might think that those who are rich and famous would be way ahead of the curve when it comes to planning their estates properly, considering the resources and lawyers presumably available to them. Yet there are plenty of celebrities and people of note who died with inadequate (or nonexistent) estate plans.

Most recently

The Queen of Soul, **Aretha Franklin**, died in 2018, leaving behind a score of wonderful music and countless memories. But it appears Ms. Franklin died without a will or estate plan in place. Her four sons filed documents in the Oakland County (Michigan) Probate Court listing themselves as interested parties, while Ms. Franklin's niece asked the court to appoint her as personal representative of the estate.

All of this information is available to the public. Her estate will be distributed according to the laws of her state of residence (Michigan). In addition, creditors will have a chance to make claims against her estate and may get paid before any of her heirs. And if she owned property in more than one state (according to public records, she did), then probate will likely have to be opened in each state where she owned property (called ancillary probate). The settling of her estate could drag on for years at a potentially high financial cost.

A few years ago

Prince Rogers Nelson, who was better known as **Prince**, died in 2016. He was 57 years old and still making incredible music and entertaining millions of fans throughout the world. The first filing in the Probate Court for Carver County, Minnesota, was by a woman claiming to be the sister of Prince, asking the court to appoint a special administrator because there was no will or other testamentary documents. As of November 2018, there have been hundreds of court filings

from prospective heirs, creditors, and other "interested parties." There will be no private administration of Prince's estate, as the entire ongoing proceeding is open and available to anyone for scrutiny.

A long time ago

Here are some other notable personalities who died many years ago without planning their estates.

Pablo Picasso died in 1973 at the ripe old age of 91, apparently leaving no will or other testamentary instructions. He left behind nearly 45,000 works of art, rights and licensing deals, real estate, and other assets. The division of his estate assets took six years and included seven heirs. The settlement among his nearest relatives cost an estimated \$30 million in legal fees and other related costs.

The administration of the estate of **Howard Hughes** made headlines for several years following his death in 1976. Along the way, bogus wills were offered; people claiming to be his wives came forward, as did countless alleged relatives. Three states — Nevada, California, and Texas — claimed to be responsible for the distribution of his estate. Ultimately, by 1983, his estimated \$2.5 billion estate was split among some 22 "relatives" and the Howard Hughes Medical Institute.

Abraham Lincoln, one of America's greatest presidents, was also a lawyer. Yet when he met his untimely and tragic death at the hands of John Wilkes Booth in 1865, he died intestate — without a will or other testamentary documents. On the day of his death, Lincoln's son, Robert, asked Supreme Court Justice David Davis to assist in handling his father's financial affairs. Davis ultimately was appointed as the administrator of Lincoln's estate. It took more than two years to settle his estate, which was divided between his surviving widow and two sons.

Key Retirement and Tax Numbers for 2019



Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2019.

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$19,000 in compensation in 2019 (up from \$18,500 in 2018); employees age 50 and older can defer up to an additional \$6,000 in 2019 (the same as in 2018).
- Employees participating in a SIMPLE retirement plan can defer up to \$13,000 in 2019 (up from \$12,500 in 2018), and employees age 50 and older can defer up to an additional \$3,000 in 2019 (the same as in 2018).

IRAs

The combined annual limit on contributions to traditional and Roth IRAs increased to \$6,000 in 2019 (up from \$5,500 in 2018), with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

| | 2018 | 2019 |
|--|-----------------------|-----------------------|
| Single/head of household (HOH) | \$63,000 - \$73,000 | \$64,000 - \$74,000 |
| Married filing jointly (MFJ) | \$101,000 - \$121,000 | \$103,000 - \$123,000 |
| Married filing separately (MFS) | \$0 - \$10,000 | \$0 - \$10,000 |

Note: The 2019 phaseout range is \$193,000 - \$203,000 (up from \$189,000 - \$199,000 in 2018) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

| | 2018 | 2019 |
|-------------------|-----------------------|-----------------------|
| Single/HOH | \$120,000 - \$135,000 | \$122,000 - \$137,000 |
| MFJ | \$189,000 - \$199,000 | \$193,000 - \$203,000 |
| MFS | \$0 - \$10,000 | \$0 - \$10,000 |

Estate and gift tax

- The annual gift tax exclusion for 2019 is \$15,000, the same as in 2018.
- The gift and estate tax basic exclusion amount for 2019 is \$11,400,000, up from \$11,180,000 in 2018.

Kiddie tax

Under the kiddie tax rules, unearned income above \$2,200 in 2019 (up from \$2,100 in 2018) is taxed using the trust and estate income tax brackets. The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

Standard deduction

| | 2018 | 2019 |
|---------------|----------|----------|
| Single | \$12,000 | \$12,200 |
| HOH | \$18,000 | \$18,350 |
| MFJ | \$24,000 | \$24,400 |
| MFS | \$12,000 | \$12,200 |

Note: The additional standard deduction amount for the blind or aged (age 65 or older) in 2019 is \$1,650 (up from \$1,600 in 2018) for single/HOH or \$1,300 (the same as in 2018) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

Alternative minimum tax (AMT)

| | 2018 | 2019 |
|--|-------------|-------------|
| Maximum AMT exemption amount | | |
| Single/HOH | \$70,300 | \$71,700 |
| MFJ | \$109,400 | \$111,700 |
| MFS | \$54,700 | \$55,850 |
| Exemption phaseout threshold | | |
| Single/HOH | \$500,000 | \$510,300 |
| MFJ | \$1,000,000 | \$1,020,600 |
| MFS | \$500,000 | \$510,300 |
| 26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount | | |
| MFS | \$95,550 | \$97,400 |
| All others | \$191,100 | \$194,800 |

*Alternative minimum taxable income



In January 2018, the median number of years that wage and salary workers had been with their current employer was 4.2 years.

Source: Employee Tenure Summary, U.S. Bureau of Labor Statistics (September 20, 2018), [bls.org](https://www.bls.org).

Four Tips for Planning a Career Change

Changing careers can be rewarding for many reasons, but career transitions don't always go smoothly. Your career shift may take longer than expected, or you may find yourself temporarily out of work if you need to go back to school or can't immediately find a job. Consider these four tips to help make the financial impact of the transition easier.

1. Do your homework

Before you quit your current job, make sure that you clearly understand the steps involved in a career move, including the financial and personal consequences. How long will it take you to transition from one career to the next? What are the job prospects in your new field? How will changing careers affect your income and expenses in the short and long term? Will you need additional education or training? Will your new career require more or fewer hours? Will you need to move to a different city or state? Is your spouse/partner on board?

You should also prepare a realistic budget and timeline for achieving your career goals. If you haven't already done so, build an emergency cash reserve that you can rely on, if necessary, during your career transition. It's also a good time to reduce outstanding debt by paying off credit cards and loans.

Assuming it's possible to do so, keep working in your current job while you're taking steps to prepare for your new career. Having a stable source of income and benefits can make the planning process much less stressful.

2. Protect your retirement savings

Many people tend to look at their retirement savings as an easy source of funds when confronted with new expenses or a temporary need for cash. But raiding your retirement savings, whether for the sake of convenience, to raise capital for a business you're starting, or to satisfy a short-term cash crunch, may substantially limit your options in the future. Although you may think you'll be able to make up the difference in your retirement account later — especially if your new career offers a higher salary — that may be easier said than done. In addition, you may owe income taxes and penalties for accessing your retirement funds early.

3. Consult others for advice

When planning a career move, consider talking to people who will understand some of the hurdles you'll face when changing professions

or shifting to a new industry or job. This may include a career counselor, a small-business representative, a graduate school professor, or an individual who currently holds a job in your desired field. A financial professional can also help you work through the economics of a career move and recommend steps to protect your finances.

4. Consider going back to school

You might be thinking about pursuing additional education in order to prepare for your new career. But before applying to graduate school, ask yourself whether your investment will be worthwhile. Will you be more marketable after earning your degree? Will you need to take out substantial loans?

In your search for tuition money, look first to your current employer. Some employers might cover the full cost of tuition, while others may cap reimbursement at a dollar amount. Generally, you'll be able to exclude up to \$5,250 of qualifying educational assistance benefits from your taxes.

In addition, it's likely that you'll have to satisfy other requirements set by your employer to be eligible for reimbursement benefits. These may include, and are not limited to:

- Discussing course of study with a manager or supervisor prior to enrolling (and receiving approval)
- Pursuing a degree or training that is job related
- Maintaining a minimum grade-point average
- Working a certain length of time for the company before taking advantage of the benefit
- Meeting eligibility requirements for regular benefits

Check with your human resources department to learn more about tuition reimbursement qualifications. Be sure to find out whether you can continue to work at your company while you attend school part-time.

Students attending graduate school on at least a half-time basis are eligible for Uncle Sam's three major student loans: the Stafford Loan, Perkins Loan, and graduate PLUS Loan. Also, at tax time, you might qualify for certain tax benefits, such as the Lifetime Learning credit. For more information, see IRS Publication 970, *Tax Benefits for Education*.



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Should I consider requesting a deferment or forbearance for my federal student loans?

Did you take on a large amount of debt to pay for college, and are you struggling to pay it off? If so, you are not alone. According to the Federal Reserve, 20% of individuals with outstanding student loans were behind on their payments in 2017.¹ You may want to consider requesting a deferment or forbearance if you are having difficulty keeping up with your federal student loan payments.

Provided certain eligibility requirements are met, both a deferment and a forbearance allow you to temporarily stop making payments or temporarily reduce your monthly payment amount for a specified time period. The key difference between the two is that with a deferment, you may not have to pay back any interest that accrues on the loan during the deferment period, depending on the type of loan you have. During a forbearance, you are responsible for paying any accrued interest on the loan, regardless of the type of loan you have.

In order to obtain a deferment or forbearance, you will need to submit a request to your loan servicer. Most deferments and forbearances

are granted for a specific time period (e.g., six months), and you may need to reapply periodically to maintain your eligibility. In addition, there is usually a limit to the number of times they are granted over the course of your loan. If you meet the eligibility requirements for a mandatory forbearance (e.g., National Guard duty), your lender is required to grant you a forbearance.

Whenever interest accrues on a loan during a deferment or forbearance, you can either pay the interest as it accrues, or it can be added to the overall principal balance of the loan at the end of the deferment or forbearance period. It is important to remember that if you don't pay the interest on your loans and allow it to accrue, the total amount you repay over the life of your loan will be higher. As a result, you should weigh the pros and cons of requesting a deferment or forbearance and consider your repayment options. For more information on your federal student loan repayment options, visit studentaid.ed.gov.

¹ Federal Reserve, Report on the Economic Well-Being of U.S. Households in 2017, May 2018



I just received a large bill for a recent hospital visit. How can I check whether it's accurate?

In today's complex world of medical billing, you may have difficulty understanding exactly which procedures you're being

charged for, or what the billing codes on your hospital bill mean.

The first step in determining whether your bill is accurate is to know exactly what your insurance does and does not cover. Review your health plan's coverage brochure or contact your insurer to find out about your plan's coverage exclusions or limitations, expenses that are fully or partially covered by your plan, and the ramifications of using an out-of-network provider.

Another helpful tool is an explanation of benefits (EOB). The EOB will provide you with a variety of information, such as the dates and type of services provided, the amount that was billed by the medical provider to the insurance company, what the insurance company paid to the provider, and the amount that wasn't covered and for which you are responsible. Review your EOB and compare it to your medical bills. If you find any discrepancies,

contact your medical provider's billing department.

Unfortunately, errors are a common occurrence in the medical billing industry. As a result, it's always important to request an itemized bill, as opposed to just a summary of charges, from a medical provider. An itemized bill is critical when it comes to identifying billing errors because it will detail each medical procedure for which you are being charged. Once you've received your itemized bill, check to make sure that all of your identifying information (e.g., address, date of birth), dates of service, and insurance information are correct. In addition, you'll want to check for common billing errors, such as charges for duplicate procedures or incorrectly coded procedures.

If you find an error on your bill, contact the billing department of the medical provider to request a corrected insurance claim and/or bill. Be prepared to explain the mistake to the billing representative and provide copies of billing records that illustrate the billing error.

