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INSIGHTS

SAGE Private Wealth Group

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Meet Paul Rashid

With 11 years of financial services industry experience, Paul joined the SAGE team in 2015. Paul is a Wealth Advisor who enjoys guiding his clients toward financial decisions that best align with their investment objectives through the SAGE Standard of Care. In addition, he is an Investment Manager, working to diligently monitor and manage investment vehicles allocated to client portfolios and he is a member of the SAGE Investment Committee.

What do you enjoy most about your role with SAGE?

I most enjoy the opportunity to combine my passion for capital market analysis with helping families achieve meaningful near-term and long-term goals that impact multiple generations.

Paul is also an accomplished sailor and a weekend hockey player. He and his wife Laura welcomed their son Paul, Jr. in 2017 and are enjoying this exciting new chapter in their lives.

February 2018

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What's Your Money Script?



Money is power. A fool and his money are soon parted. A penny saved is a penny earned. Money is the root of all evil.

Do any of these expressions ring true for you?

As it turns out, the money beliefs our families espoused while we were growing up may have a profound effect on how we behave financially today — and may even influence our financial success.

Beliefs drive behaviors

In 2011, *The Journal of Financial Therapy* published a study by financial psychologist Brad Klontz et al., that gauged the reactions of 422 individuals to 72 money-related statements.¹ Examples of such statements include:

- There is virtue in living with less money
- Things will get better if I have more money
- Poor people are lazy
- It is not polite to talk about money

Based on the findings, Klontz was able to identify four "money belief patterns," also known as "money scripts," that influence how people view money. Klontz has described these scripts as "typically unconscious, trans-generational beliefs about money" that are "developed in childhood and drive adult financial behaviors."² The four categories are:

1. Money avoidance: People who fall into this category believe that money is bad and is often a source of anxiety or disgust. This may result in a hostile attitude toward the wealthy. Paradoxically, these people might also feel that all their problems would be solved if they only had more money. For this reason, they may unconsciously sabotage their own financial efforts while working extra hours just to make ends meet.

2. Money worship: Money worshippers believe that money is the route to true happiness, and one can never have enough. They feel that they will never be able to afford everything they want. These people may shop compulsively, hoard their belongings, and put work ahead of relationships in the ongoing quest for wealth.

3. Money status: Similar to money worshippers, these people equate net worth with self-worth, believing that money is the key to both happiness and power. They may live lavishly in an attempt to keep up with or even beat the Joneses, incurring heavy debt in the process. They are also more likely than those in other categories to be compulsive gamblers or to lie to their spouses about money.

4. Money vigilance: Money vigilants are cautious and sometimes overly anxious about money, but they also live within their means, pay off their credit cards every month, and save for the future. However, they risk carrying a level of anxiety so high that they cannot enjoy the fruits of their labor or ever feel a sense of financial security.

Awareness is the first step

According to Klontz's research, the first three money scripts typically lead to destructive financial behaviors, while the fourth is the one to which most people would want to aspire. If you believe you may fit in one of the self-limiting money script categories, consider how experiences in your childhood or the beliefs of your parents or grandparents may have influenced this thinking. Then do some reality-checking about the positive ways to build and manage wealth. As in other areas of behavioral finance and psychology in general, awareness is often the first step toward addressing the problem.

¹ "Money Beliefs and Financial Behaviors," *The Journal of Financial Therapy*, Volume 2, Issue 1

² Financial Planning Association, accessed October 24, 2017

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Deducting 2017 Property Losses from Your Taxes



New rules for 2018 and beyond

Recent tax reform legislation eliminates deductions for casualty losses that occur in 2018 through 2025, except for losses in federally declared disaster areas.

The legislation also makes changes that apply retroactively to 2016 and 2017 for net disaster losses arising from 2016 federally declared disaster areas.

Hurricanes, wildfires, tornadoes, floods, earthquakes, winter storms, and other events often cause widespread damage to homes and other types of property. If you've suffered property loss as the result of a natural or man-made disaster in 2017, you may be able to claim a casualty loss deduction on your federal income tax return.

What is a casualty loss?

A casualty is the destruction, damage, or loss of property caused by an unusual, sudden, or unexpected event. Casualty losses may result from natural disasters or from other events such as fires, accidents, thefts, or vandalism. You probably don't have a deductible casualty loss, however, if your property is damaged as the result of gradual deterioration (e.g., a long-term termite infestation).

How do you calculate the amount of your loss?

To calculate a casualty loss on personal-use property, like your home, that's been damaged or destroyed, you first need two important pieces of data:

- The decrease in the fair market value (FMV) of the property; that's the difference between the FMV of the property immediately before and after the casualty
- Your adjusted basis in the property before the casualty; your adjusted basis is usually your cost if you bought the property (different rules apply if you inherited the property or received it as a gift), increased for things like permanent improvements and decreased for items such as depreciation

Starting with the lower of the two amounts above, subtract any insurance or other reimbursement that you have received or that you expect to receive. The result is generally the amount of your loss. If you receive insurance payments or other reimbursement that is more than your adjusted basis in the destroyed or damaged property, you may actually have a gain. There are special rules for reporting such gain, postponing the gain, excluding gain on a main home, and purchasing replacement property.

After you determine your casualty loss on personal-use property, you have to reduce the loss by \$100. The \$100 reduction applies per casualty, not per individual item of property. Two or more events that are closely related may be considered a single casualty. For example, wind and flood damage from the same storm would typically be considered a single casualty event, subject to only one \$100 reduction. If both your home and automobile

were damaged by the storm, the damage is also considered part of a single casualty event — you do not have to subtract \$100 for each piece of property.

You must also reduce the total of all your casualty and theft losses on personal property by 10% of your adjusted gross income (AGI) after each loss is reduced by the \$100 rule, above.

Keep in mind that special rules apply for those affected by Hurricanes Harvey, Irma, and Maria. The Disaster Tax Relief Act of 2017 increased the threshold for claiming a casualty loss deduction to \$500, waived the requirement that the loss is deductible only to the extent it exceeds 10% of AGI, and allowed a deduction even for those who do not itemize.

Also note that the rules for calculating loss can be different for business property or property that's used to produce income, such as rental property.

When can you deduct a casualty loss?

Generally, you report and deduct the loss in the year in which the casualty occurred. Special rules, however, apply for casualty losses resulting from an event that's declared a federal disaster area by the president.

If you have a casualty loss from a federally declared disaster area, you can choose to report and deduct the loss in the tax year in which the loss occurred, or in the tax year immediately preceding the tax year in which the disaster happened. If you elect to report in the preceding year, the loss is treated as if it occurred in the preceding tax year. Reporting the loss in the preceding year may reduce the tax for that year, producing a refund. You generally have to make a decision to report the loss in the preceding year by the federal income tax return due date (without any extension) for the year in which the disaster actually occurred.

Casualty losses are reported on IRS Form 4684, Casualties and Thefts. Any losses relating to personal-use property are carried over to Form 1040, Schedule A, Itemized Deductions.

Where can you get more information?

The rules relating to casualty losses can be complicated. Additional information can be found in the instructions to Form 4684 and in IRS Publication 547, Casualties, Disasters, and Thefts. If you have suffered a casualty loss, though, you should consider discussing your individual circumstances with a tax professional.

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The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf without a roadmap.

Note: There are costs and ongoing expenses associated with the creation of trusts.

Note: A complete statement of long-term care insurance coverage, including exclusions, exceptions, and limitations, is found only in the long-term care insurance policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.

Don't Wait to Ask Aging Parents These Important Questions

It's human nature to put off complicated or emotionally heavy tasks. Talking with aging parents about their finances, health, and overall well-being might fall in this category. Many adult children would rather avoid this task, as it can create feelings of fear and loss on both sides. But this conversation — what could be the first of many — is too important to put off for long. The best time to start is when your parents are relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis without a roadmap.

Here are some questions to ask them that might help you get started.

Finances

- What institutions hold your financial assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers, name(s) on accounts, and online user names and passwords, if any. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills? Do you use online bill pay for any accounts?
- Do you currently work with any financial, legal, or tax professionals? If so, ask your parents if they want to share contact information and whether they would find it helpful if you attended meetings with them.
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if the parent becomes disabled or incompetent.
- Do you have a will? If so, find out where it is and who is named as executor. If the will is more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now.
- Are your beneficiary designations up-to-date? Beneficiary designations on your parents' insurance policies, pensions, IRAs, and investment accounts will trump any instructions in their will.
- Do you have an overall estate plan? A trust? A living trust can be used to help manage an

estate while your parents are still living. If you'd like to learn more, consult an estate planning attorney.

Health

- What doctors do you currently see? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking? Are you able to manage various dosage instructions? Do you have any notable side effects? At what pharmacy do you get your prescriptions filled?
- What health insurance do you have? In addition to Medicare, which starts at age 65, find out if your parents have or should consider Medigap insurance — a private policy that covers many costs not covered by Medicare. You may also want to discuss the need for long-term care insurance, which helps pay for extended custodial or nursing home care.
- Do you have an advance medical directive? This document expresses your parents' wishes regarding life-support measures, if needed, and designates someone who will communicate with health-care professionals on their behalf. If your parents do not want heroic life-saving measures to be undertaken for them, this document is a must.

Living situation

- Do you plan to stay in your current home for the foreseeable future, or are you considering downsizing?
- Is there anything I can do now to make your home more comfortable and safe? This might include smaller projects such as installing hand rails and night lights in the bathroom, to larger projects such as moving the washing machine out of the basement, installing a stair lift, or moving a bedroom to the first floor.
- Could you benefit from a weekly or monthly cleaning service?
- Do you employ certain people or companies for home maintenance projects (e.g., heating contractor, plumber, electrician, fall cleanup)?

Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific requests or wishes for your memorial service?

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Why is it important to factor inflation into retirement planning?

Inflation is one of the key factors you will need to consider when planning for retirement. Not only will the

cost of living rise while you're accumulating assets for retirement, but it will continue to rise *during* your retirement, which could last 25 years or longer. This, combined with the fact that you will not likely earn a paycheck during retirement, is the main reason your portfolio needs to maintain at least some growth potential for the duration of your retirement.

Consider this: If inflation runs at 3% (which is approximately its long-term average, as measured by the Consumer Price Index), the purchasing power of a given sum of money would be cut in half in 23 years. If it averages 4%, your purchasing power would be cut in half in 18 years.

A simple example illustrates the impact of inflation on retirement income. Assuming a consistent annual inflation rate of 3%, if \$50,000 satisfies your retirement income needs this year, you'll need \$51,500 of income next year to meet the same income needs. In 10 years, you'll need about \$67,195 to equal the

purchasing power of \$50,000 this year. And in 25 years, you'd need nearly \$105,000 just to maintain that purchasing power!¹

Keep in mind that even a 3% long-term average inflation rate conceals periods of skyrocketing prices, such as in the late 1970s and early 80s, when inflation reached double digits. Although consumer prices have been relatively stable in more recent decades, there's always the chance that unexpected shocks could cause prices to spike again.

So how do you strive for the returns you'll need to outpace inflation by a wide enough margin both before and during retirement? The key is to consider investing at least some of your portfolio in growth-oriented investments, such as stocks.²

¹ This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Note that these figures exclude the effects of taxes, fees, expenses, and investment returns in general.

² All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.