BEYOND THE HORIZON

HORIZON FINANCIAL ADVISORS NEWSLETTER

January 2017 Issue

IN THE NEWS

The following are the tax rules and limits for the UPCOMING 2017 tax year. Many of the limits remain unchanged from last year.

- The limits for contributions into company-sponsored retirement plans remain UNCHANGED for 2017. The 401(k) and 403(b) contribution limits hold at $18,000 (plus a $6,000 "catch-up" for those age 50 or older). The limit for contributions to a Simple IRA also holds at $12,500 (plus a $3,000 "catch-up").
- The maximum contribution limit for Traditional or Roth IRAs HOLDS for 2017 at $5,500 plus an additional $1,000 for individuals age 50 or older. As always, you OR your spouse must have earned income to make a Traditional or Roth contribution.
- Taking the deduction for Traditional IRA contributions may be limited for those who participate in an employer-sponsored retirement plan. The AGI income phase-out increases to $99,000-$119,000 for marrieds and $62,000-$72,000 for singles. Where only one spouse is active in a plan, the phase-out increases slightly to $186,000-$196,000.
- The income limit for making Roth IRA contributions also increases slightly with the phase-out at $186,000-$196,000 for married filers and $118,000-$133,000 for single filers.
- A reminder that the 0% tax rate on capital gains and qualified dividends was made permanent for filers who fall in the 15% or lower tax bracket. For 2017, that would apply to taxable income at $75,900 or below for married filers and at $37,950 or below for single filers.
- The Social Security wage base for this payroll tax JUMPS from $118,500 to $127,200 for 2017.
- Those collecting Social Security before full retirement age (who are between the ages of 62 and 66) can earn $16,920 in 2017 without losing benefits. But individuals who reach their Full Retirement Age during 2017 can earn up to $44,880 in the months before reaching FRA without losing benefits.
- The personal exemption REMAINS at $4,050 per person.
- The standard deductions increase slightly to $12,700 for married filers (plus $1,250 for each spouse age 65 or older), $6,350 for single filers (plus $1,550 if age 65), and $9,350 for heads of household (plus $1,550 if age 65).
- The annual gift tax exclusion REMAINS at $14,000 per recipient. For 2017 estates valued at $5,490,000 or less will be exempt from the Federal estate tax.

- The contribution limit to Health Savings Accounts ("HSAs") increases slightly to $3,400 for single coverage but remains the same at $6,750 for family coverage. HSA owners born before 1963 can contribute an additional $1,000. As always, you can make the contribution only if you have a high-deductible health plan.
- Starting with 2017 returns, the threshold for deducting medical expenses on Schedule A jumps to 10% of AGI for all taxpayers, regardless of age.
- The Lifetime Learning education credit phases out at AGI levels between $112,000-$132,000 for married filers and between $56,000-$66,000 for single filers.
- The standard mileage rate again decreases in 2017 to 53.5 cents per mile for business driving and to 17 cents per mile for medical purposes. However, the rate holds at 14 cents per mile for charitable driving.

Sources: Internal Revenue Service; Kiplinger.

MARKET OUTLOOK

Last year, the equity markets got off to a very rocky start. In the first three weeks of 2016, the S&P 500 index fell nearly 9%. The pullback in January was in reaction to the Federal Reserve's long-awaited move in December of 2015 to raise interest rates for the first time since 2008. At the same time, we were facing concerns over China's economic slowdown and policy changes they implemented which devalued their currency. The markets recovered soon thereafter and continued to realize steady gains until June of 2016 when "Brexit" occurred. In reaction to Britain's decision to leave the European Union, the U.S. stock markets again suffered a setback of nearly 5%. This setback, too, was temporary. The markets recovered again and surged after the U.S. Presidential election. In the end, 2016 proved to be another good year for nearly all stocks. The Dow Industrials, S&P 500, and Nasdaq gained 16.5%, 12.0%, and 8.9%, respectively, in 2016. As for U.S. stock sectors, energy stocks were the big winner gaining 27.4%, whereas healthcare stocks were the poorest performer, losing - 2.7% due to concerns over regulatory issues. International stocks also gained last year. The developed markets gained 1.5% but the emerging markets gained 11.6%. As for bonds, the Bloomberg Barclays U.S. Aggregate Bond index gained 2.65% in 2016.

We begin the new year, as we did the last one, coming off of another increase in interest rates by the Federal Reserve. The move last month was spurred by improving jobs numbers and an uptick in GDP growth. The Commerce Department said the economy expanded at an annualized rate of 3.50% in the third quarter of 2016. That was the highest quarterly GDP growth rate seen since 2014. A full implementation of Trump's proposed plan to cut both individual and corporate taxes and to increase spending on infrastructure would create further stimulus to the economy. Too much stimulus, however, would increase the deficit down the road. Though the Federal Reserve has signaled three rate hikes in 2017, Fed Chairwoman Janet Yellen stressed the Fed would take a wait-and-see approach since the outlines of Trump's plans are still developing.

Though the markets typically do not like uncertainty, they have reacted favorably since the outcome of the election. Additionally, consumer sentiment has surged since the presidential election and rose last month to its highest level in 12 years, according to the University of Michigan.

Though the country is divided on their views on Trump, overall, consumers are expecting that a stronger economy will create more jobs. At the time this newsletter went to press, equity markets were near all-time highs.

Globally, growth in 2017 will continue to be weak, but the U.S. and some emerging markets are bright spots. Though the U.S. economic expansion is now into its seventh year, which is longer than the length of most economic recoveries, it shows no signs in the near future of any excesses that would lead to a recession. For now, continued growth is being driven by the strength of the U.S. consumer, helped by low unemployment and renewed wage growth in 2016. This point is key because consumer spending is a fundamental driver of the economy and accounts for approximately 70% of all economic growth in the U.S.

Consumer spending patterns will also be a factor to watch. There are two demographic groups that will have a major impact on the global economy – the baby boomers and the millennials. As baby boomers move into retirement, they will be spending on health care, travel and financial services. The millennials, those born from 1980 to 2000, are the biggest generation in U.S. history. They are spending on technology and experiences and place more emphasis on sharing, bartering and trading. But they have put off getting married, having kids, and owning a home as they struggle to get their finances in order. Their pent-up demand is expected to result in their spending an estimated $1.4 trillion annually by 2020. But most of the world's two billion millennials are living in emerging markets, and the emerging economies are expected to account for nearly half of total global consumption. This will likely have a transformative impact on the world's economy.

As we enter a new year with a world in transition, there are no indicators that warrant a change in our overall investment strategy. The U.S. will continue to be the dominant player in the global economy. Therefore, U.S. equities will be the core of our portfolios invested for long-term growth. But significant opportunities still exist outside the U.S., especially in China and other emerging markets, which calls for an allocation, though smaller, to the international markets. As for bonds, potential return is expected to be limited. Depending on the type, they will always have a place in the portfolio. Bonds and/or fixed annuities in a portfolio will help to dampen short-term volatility. Now, more than ever, a diversified portfolio makes sense. Doing so will mean you will always have a holding in the portfolio that is lagging or underperforming. But having a diversified portfolio will help protect you. Though the short-term forecast displays signs of continued growth, long-term investment returns are still expected to be modest and limited.

Sources: Marketwatch; Hays Advisory; American Funds; Morningstar.

ADDRESSING THE CHALLENGE OF FUNDING A COLLEGE EDUCATION

According to the U.S. Department of Education for the 2013-2014 academic school year, undergraduate tuition, fees, room, and board were estimated to be $15,640 per year at public institutions or $40,614 at private nonprofit institutions. That brings the total cost of an education to between $62,500 and $162,456, which is rising at a much faster rate than inflation. Without having saved for such an expense, it puts a tremendous burden on students and parents to borrow to fund education. The Federal Reserve Board's Household Debt and Credit report in June of 2015 showed that outstanding student debt in the U.S. swelled to approximately $1.19 trillion.

Despite the challenge of funding an education, a college degree is more important than ever before. According to the Bureau of Labor Statistics (2014), those with bachelor's degrees earn 65% more than high school graduates and experience higher job satisfaction and lower unemployment. Additionally, students in the U.S. are now competing for jobs with students from all over the world.

Perhaps this is why education savings plans are growing in popularity. One such plan is the 529 college savings plan. According to the College Savings Plans Network, families invested a record $253 billion into 529 plans in 2015. Yet government data shows that less than three percent of U.S. families make use of these accounts. But a report by the Network in March of 2016 indicated that tendency is starting to change.

One of the advantages to the 529 plan is that families can invest in such accounts without the earnings being taxed, as long as the monies are used to pay for "qualified" education expenses. Qualified expenses include tuition at <u>any</u> accredited school, as well as books, fees, room, and board. In addition to the tax-free investment earnings, Pennsylvania residents who make a contribution to a 529 (regardless of the relationship between the child and the contributor), are able to deduct the contributions on their state income tax return.

In addition to the tax benefits, there are other advantages. Most 529 plan sponsors will allow you to open an account for as little as $250 and make deposits thereafter for as little as $50. When the account is opened, a child is named as the account "beneficiary". The account "owner", such as a parent or grandparent, manages the account and maintains control. Unlike a custodial or UGMA account, the child/beneficiary does NOT gain control of the money at age of majority. The account beneficiary can also be changed to another family member should it be determined that the child may not have a need for the account. Should the account be used for reasons other than qualified education expenses, the earnings would be considered taxable income and subject to a 10% penalty. Most importantly, the account is not forfeited if not used for education.

Starting a 529 college savings plan for your child or grandchild could make a meaningful difference in their future. For more information on the 529 plan, contact a tax advisor or call our office.

Source: Washington Post; U.S. Department of Education, National Center for Education Statistics; American Funds.

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