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LIFE THE WAY YOU PLANNED IT.

Down the Donut Hole: The Medicare Coverage Gap

One of the most confusing Medicare provisions is the prescription drug coverage gap, often called the "donut hole." It may be clearer if you consider the gap within the annual "lifecycle" of Medicare Part D Prescription Drug Coverage. This also applies to drug coverage that is integrated into a Part C Medicare Advantage Plan.

Annual deductible. Prescription drug plans typically have an annual deductible not exceeding \$405 in 2018. Before reaching the deductible, you will pay the full cost of your prescriptions, although you may receive negotiated discounts.

Initial coverage period. After you meet the annual deductible, your plan will pay a portion of your prescription drug costs, and you will typically have a copayment or coinsurance amount. A 25% coinsurance amount is the standard coverage required by Medicare, but most plans have different levels or "tiers" of copayments or coinsurance for different types of drugs.

Coverage gap. When you and your plan combined have spent a specified amount on drugs for the year (\$3,750 in 2018), you enter

the coverage gap. In 2018, you pay 35% of your plan's price for covered brand-name prescription drugs and 44% of the price for generic drugs. The gap is closing over the next two years (see chart).

You remain in the coverage gap until you reach an annual out-of-pocket spending limit (\$5,000 in 2018). Spending that counts toward the limit includes your deductible, copay, and coinsurance; the manufacturer's discount on brand-name drugs in the coverage gap; and your out-of-pocket payments in the gap. It does not include your premiums, the amount the plan pays, or your payments for noncovered drugs.

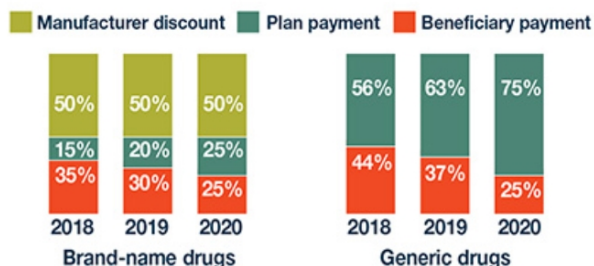
Catastrophic coverage. Once you have reached the out-of-pocket limit, you receive catastrophic coverage with much lower payments. In 2018, you would pay the greater of 5% of drug costs or \$3.35/\$8.35 for each generic and brand-name drug, respectively.

Some plans have more generous coverage in the gap. You may be able to avoid the coverage gap by using generic medicine, when appropriate, to lower your drug costs.

For more information, see Medicare.gov.

CLOSING THE GAP

Beginning in 2013, the Affordable Care Act required drug manufacturers to provide a 50% discount on brand-name drugs, and since then the percentage that beneficiaries must pay has been gradually reduced. By 2020, beneficiaries will pay no more than the standard 25% coinsurance amount for all covered drugs, effectively ending the coverage gap.



Source: Centers for Medicare & Medicaid Services, 2017

November, 2018

Take Charge of Your Student Debt Repayment Plan

Ten Year-End Tax Tips for 2018

How can I protect my personal and financial information from credit fraud and identity theft?

How can I safely shop online this holiday season?



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Take Charge of Your Student Debt Repayment Plan



If you have federal student loans, you aren't automatically eligible for an income-driven repayment plan — you have to fill out an application (and reapply each year).

Outstanding student loan debt in the United States has tripled over the last decade, surpassing both auto and credit card debt to take second place behind housing debt as the most common type of household debt.¹ Today, more than 44 million Americans collectively owe more than \$1.4 trillion in student debt.² Here are some strategies to pay it off.

Look to your employer for help

The first place to look for help is your employer. While only about 4% of employers offer student debt assistance as an employee benefit, it's predicted that more employers will offer this benefit in the future to attract and retain talent.

Many employers are targeting a student debt assistance benefit of \$100 per month.³ That doesn't sound like much, but it adds up. For example, an employee with \$31,000 in student loans who is paying them off over 10 years at a 6% interest rate would save about \$3,000 in interest and get out of debt two and a half years faster.

Understand all your repayment options

Unfortunately, your student loans aren't going away. But you might be able to choose a repayment option that works best for you. The repayment options available to you will depend on whether you have federal or private student loans. Generally, the federal government offers a broader array of repayment options than private lenders. The following payment options are for federal student loans. (If you have private loans, check with your lender to see which options are available.)

Standard plan: You pay a certain amount each month over a 10-year term. If your interest rate is fixed, you'll pay a fixed amount each month; if your interest rate is variable, your monthly payment will change from year to year (but it will be the same each month for the 12 months that a certain interest rate is in effect).

Extended plan: You extend the time you have to pay the loan, typically anywhere from 15 to 30 years. Your monthly payment is lower than it would be under a standard plan, but you'll pay more interest over the life of the loan because the repayment period is longer.

Example: You have \$31,000 in student loans with a 6% fixed interest rate. Under a standard plan, your monthly payment would be \$344, and your total payment over the term of the loan would be \$41,300, of which \$10,300 (25%) is interest. Under an extended plan, if the term were increased to 20 years, your monthly payment would be \$222, but your total payment over the term of the loan would be \$53,302, of which \$22,302 (42%) is interest.

Graduated plan: Payments start out low in the early years of the loan, then increase in the later years of the loan. With some graduated repayment plans, the initial lower payment includes both principal and interest, while under other plans the initial lower payment includes interest only.

Income-driven repayment plan: Your monthly payment is based on your income and family size. The federal government offers four income-driven repayment plans for federal student loans only:

- Pay As You Earn (PAYE)
- Revised Pay As You Earn (REPAYE)
- Income-Based Repayment (IBR)
- Income-Contingent Repayment (ICR)

You aren't automatically eligible for these plans; you need to fill out an application (and reapply each year). Depending on the plan, your monthly payment is set between 10% and 20% of your discretionary income, and any remaining loan balance is forgiven at the end of the repayment period (generally 20 or 25 years depending on the plan, but 10 years for borrowers in the Public Service Loan Forgiveness Program). For more information on the nuances of these plans or to apply for an income-driven plan, visit the federal student aid website at studentaid.ed.gov.

Can you refinance?

Yes, but only with a new private loan. (There is a federal consolidation loan, but that is different.) The main reason for trying to refinance your federal and/or private student loans into a new private loan is to obtain a lower interest rate. You'll need to shop around to see what's available.

Caution: If you refinance, your old loans will go away and you will be bound by the terms and conditions of your new private loan. If you had federal student loans, this means you will lose any income-driven repayment options.

Watch out for repayment scams

Beware of scammers contacting you to say that a special federal loan assistance program can permanently reduce your monthly payments and is available for an initial fee or ongoing monthly payments. There is no fee to apply for any federal repayment plan.

¹ New York Federal Reserve, Quarterly Report on Household Debt and Credit, February 2018

² CFPB, Innovation Highlights: Emerging Student Loan Repayment Assistance Programs, August 2017

³ Society for Human Resource Management, October 2, 2017



Ten Year-End Tax Tips for 2018



Timing of itemized deductions and the increased standard deduction

The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. (After 2025, these provisions revert to pre-2018 law.) It may now be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction.

IRA and retirement plan contributions

For 2018, you can contribute up to \$18,500 to a 401(k) plan (\$24,500 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2018 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2018 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2019, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2019, could make a difference on your 2018 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2018, prepaying 2019 state and local taxes probably won't help your 2018 tax situation, but could hurt your 2019 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest

advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. With all the recent tax changes, it may be especially important to review your withholding in 2018.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2018 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.



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How can I protect my personal and financial information from credit fraud and identity theft?

In today's digital world, massive computer hacks and data breaches are common occurrences. And chances are, your personal or financial information is now susceptible to being used for credit fraud or identity theft. If you discover that you are the victim of either of these crimes, you should consider placing a credit freeze or fraud alert on your credit report to protect yourself.

A credit freeze prevents new credit and accounts from being opened in your name. Once you obtain a credit freeze, creditors won't be allowed to access your credit report and therefore cannot offer new credit. This helps prevent identity thieves from applying for credit or opening fraudulent accounts in your name.

To place a credit freeze on your credit report, you must contact each credit reporting agency separately either by phone or by filling out an online form. Keep in mind that a credit freeze is permanent and stays on your credit report until you unfreeze it. This is important, because if you want to apply for credit with a new financial institution in the future, open a new bank account, or even apply for a job or rent an

apartment, you will need to "unlock" or "thaw" the credit freeze with each credit reporting agency.

A less drastic option is to place a fraud alert on your credit report. A fraud alert requires creditors to take extra steps to verify your identity before extending any existing credit or issuing new credit in your name. To request a fraud alert, you only have to contact one of the three major reporting agencies, and the information will be passed along to the other two.

Recently, as part of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, Congress made several changes to credit rules that benefit consumers. Under the new law, consumers are now allowed to "freeze" and "unfreeze" their credit reports free of charge at all three of the major credit reporting bureaus, Equifax, Experian, and TransUnion. In addition, the law extends initial fraud alert protection to one full year. Previously, fraud alerts expired after 90 days unless they were renewed.



How can I safely shop online this holiday season?

Shopping online is especially popular during the holiday season, when many people prefer to avoid the crowds and purchase gifts with a few clicks of a mouse. However, with this convenience comes the danger of having your personal and financial information stolen by computer hackers.

Before you click, you might consider the following tips for a safer online shopping experience.

Pay by credit instead of debit. Credit card payments can be withheld if there is a dispute, but debit cards are typically debited quickly. In addition, credit cards generally have better protection than debit cards against fraudulent charges.

Maintain strong passwords. When you order through an online account, you should create a strong password. A strong password should be at least eight characters long, using a combination of lower-case letters, upper-case letters, numbers, and symbols or a random phrase. Avoid dictionary words and personal information such as your name and address. Also create a separate and unique password

for each account or website you use, and try to change passwords frequently. To keep track of all your password information, consider using password management software, which generates strong, unique passwords that you control through a single master password.

Beware of scam websites. Typing one word into a search engine to reach a particular retailer's website may be easy, but it sometimes won't bring you to the site you are actually looking for. Scam websites may contain URLs that look like misspelled brand or store names to trick online shoppers. To help you determine whether an online retailer is reputable, research sites before you shop and read reviews from previous customers. Look for *https://* in the URL and not just *http://*, since the "s" indicates a secure connection.

Watch out for fake phishing and delivery emails. Beware of emails that contain links or ask for personal information. Legitimate shopping websites will never email you and randomly ask for your personal information. In addition, be aware of fake emails disguised as package delivery emails. Make sure that all delivery emails are from reputable delivery companies you recognize.



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IRS Says No To SALT

Perhaps you have heard of the deductibility limitation on state and local taxes (known as the SALT) imposed by the Tax Cuts and Jobs Act. In summary, the maximum deduction for state, local, and property taxes you can deduct is \$10,000 (couple) or \$5,000 (single). If your SALT taxes are more than that, they will not be deductible.

A number of the high-tax states developed strategies to fight back, in some instances by letting people make charitable contributions to their school districts in lieu of property taxes. They would then receive a credit for the charitable donation on their state tax return. The IRS pledged to fight these measures, and now it has come out with regulations which fulfill that promise.

The IRS rulings say that the credits against state taxation are a *quid pro quo* received for the charitable contribution, which negates the deductibility of the charitable contribution. This is not a new interpretation for the IRS. Typically, under existing guidelines, the value of anything you receive in return for a charitable donation needs to be subtracted from the donation. The IRS only clarified that this also applied to state tax credits.



Jobs of the Future

Economists and technology prognosticators are going back and forth trying to convince us whether artificial intelligence, robots and other thinking machines may destroy or create jobs. The McKinsey Global Institute and India's Tata Communications recently came out with reports that are more optimistic regarding our capacity to make a living in a world where machines do lots of the thinking.

The report suggests that today, 61% of businesses are employing artificial intelligence in some way. This has increased from 38% in 2016. The artificial leaders are participating in computer vision and producing natural vocabulary; they are getting to be digital assistants and facilitating machine learning and improved decision making.

McKinsey expects the worldwide economy to produce an extra 1.2% GDP growth during the next ten years because of those improved business capabilities. Meanwhile, skilled occupations are going to be in greater demand, and consequently, skilled employees are going to have the ability to demand higher wages.

Tata's report forecasts that, exactly like software, the AI-enhanced computers will produce many more ways of working – especially new occupations and professions. The McKinsey report essentially agrees, but states that there'll be challenges for the less-computer-literate employees -- they will need to be retrained to work together with automation -- known as "re-skilling" in human resource HR lingo. Otherwise, their opportunities will drop to 30% of jobs -- down from 40% of today's jobs -- that are held by non-computer literate workers.

As an example, you've probably waited in a long line to return something at a store. Companies now have staffers approach men and women in with iPads in hand. They can look up the client's purchase, immediately identify or scan in the item they are returning, review purchase history, and let the customer know if they will receive an exchange or refund. The entire customer support experience changes with technology.

The forecast from these reports is like the changes from software a generation ago -- people and machines will collaborate to manage more information quicker and in more creative ways to innovate and resolve problems. The key skillset will be the ability to constantly learn and embrace new ways of doing things. For those with this capability, the future seems bright.



The Marriage Penalty Is Nearly Gone

The Tax Cuts and Jobs Act has essentially eliminated the so-called "marriage penalty." However, the new law imposes a new "stealth" marriage penalty that will impact taxpayers in higher-tax states.

The marriage penalty is generally defined as charging more federal taxes on married couples with two incomes than could be charged on the same couple if they filed as individuals. For instance, under the old regime, two single filers making \$50,000 would each have a 25% marginal tax rate. However, a married couple each earning \$50,000 (\$100,000 total household income), would be taxed at a 28% marginal rate.

So how has this changed? As you can see from the table, the tax brackets for "married filing jointly" are exactly two times as the size as the single filer bracket. The exception is for married taxpayers in the highest brackets when the marriage penalty comes back in.

So, an individual making \$50,000 or a couple making \$50,000 each (\$100,000 total) will all have a 22% marginal tax rate. As the chart shows, if an individual made \$350,000 they would fall in the 35% marginal bracket. However, if the individual got married to someone also earning \$350,000, suddenly they must pay tax at a 2% higher rate (37%) for combined income over \$600,000. It may not be a large difference, but there is clearly a penalty involved.

What about the stealth marriage penalty? The new tax law puts a \$10,000 limit on the amount you could deduct for state and local taxes -- including state sales or income taxes and property taxes. The same limit regardless if you file as an individual or married. Clearly, a stealth marriage penalty.

This obviously only applies to taxpayers that have large state and local taxes. Note that some states do not have state taxes so for taxpayers in those states it becomes even more unlikely there would be a marriage penalty (only if the taxpayer was very high income).

2018 Personal Income Tax Rates

<u>Tax Rate</u>	<u>Taxable Income</u>	
	<u>Married Filing Joint</u>	<u>Single</u>
10%	\$0 - \$19,050	\$0 - \$9,525
12%	\$19,050 - \$77,400	\$9,525 - \$38,700
22%	\$77,400 - \$165,000	\$38,700 - \$82,500
24%	\$165,000 - \$315,000	\$82,500 - \$157,500
32%	\$315,000 - \$400,000	\$157,500 - \$200,000
35%	\$400,000 - \$600,000	\$200,000 - \$500,000
37%	over \$600,000	over \$500,000



The Robots Are Coming – Or Are They?

We've been hearing more of it lately -- the bots are coming for your job, and they're going to get it. Right?

Perhaps not. A new report by the OECD (the Organization of Economic Cooperation and Development), -- a 36 member intergovernmental financial organization -- recently concluded that only 14% of jobs in developed nations are "highly automatable." In the U.S., this would potentially impact 13 million jobs -- much less than other sensationalistic studies. But still a sizeable number.

The impact will be particularly damaging to groups already under threat in today's labor markets: low-skilled workers along with the young. Especially in danger: employment in personal services and sales, which provide 34% of jobs to employees age 20 and under.

The report gave examples of jobs that are the most and least susceptible to automation. Mathematical and computer whizzes, corporate managers and sports celebrities are least likely to be replaced by a machine. But people in office administration and support could think about getting some additional training -- perhaps sooner rather than later.



The Unique Employee Difference

A roundtable of notable CEOs was recently asked an interesting question: what characteristics make an irreplaceable worker? How can you describe this individual? You might think their response would mention outstanding abilities, a fantastic educational history, or business certifications. But rather, the CEOs recorded three key characteristics:

A drama-free character. The notion here is people who make drama are basically selfish, and that low-drama employees normally have a higher commitment to performing their work without having a great deal of oversight and telling co-workers what a wonderful job they are doing.

Operational focus. This means that they are devoted to great implementation of whatever the task is. These are people who not only talk about ideas but also execute on those ideas. In short, getting things done. The most irreplaceable workers realize that implementation and results are what matters. They're masters of follow-through.

Confidence and inner motivation. The irreplaceable workers are confident enough to take both negative or positive comments and change their actions as a result. They're self-motivated to always improve.

The CEOs were asked why they do not simply hire only individuals with those characteristics, but the dilemma is they're difficult to spot in an interview procedure.

Words, and stating the proper thing, is not necessarily a sign that the individual sitting across the desk will be drama-free, centered on operational excellence, both optimistic and motivated. Everybody pretends to have these traits; you simply do not know until they are in the workplace. And individuals with these characteristics appear to be rare.