



## Johnston Investment Counsel

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Key Retirement and Tax Numbers for 2020  
Five Retirement Lessons from Today's Retirees

What health services aren't covered by Medicare?

How much will health care cost?



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LIFE THE WAY YOU PLANNED IT.

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## *LIFE THE WAY YOU PLANNED IT.*

### Three Regrets of Retirees



A recent survey found that more than half of retirees have retirement planning regrets. Unfortunately, many of these retirees had to cut back on their lifestyles to compensate for financial shortfalls.<sup>1</sup>

Considering their most common regrets may help you avoid making the same mistakes.

#### Not saving enough

More than one-third of retirees wish they had saved more.<sup>2</sup> How much is enough? The amount you need depends on your other sources of income and your anticipated retirement lifestyle.

It might be helpful to consider the 4% rule, a traditional guideline for the percentage of savings that you may be able to withdraw each year without depleting your nest egg over a 30-year retirement. For example, \$100,000 in savings would provide only \$4,000 in annual income. If you will need \$20,000 from your savings each year, you should have \$500,000 socked away by the time you retire. Withdrawing \$40,000 annually might require \$1 million in savings.

The longer you have before retirement, the more time you have to take advantage of long-term savings and compounding of potential returns.

If you have a workplace plan, you might start by saving enough to receive any employer match and then increase your savings percentage by 1% each year until you reach 15% or more. You may need to target a higher percentage if you get a late start. Even if retirement is coming soon, you might be surprised by how much you can save if you focus on that goal.

#### Relying too much on Social Security

Social Security was never meant to meet all your retirement income needs. The average 2019 monthly benefit of \$1,461 for a retired worker and \$2,448 for a couple would hardly provide a comfortable retirement. The 2019 maximum worker benefit of \$2,861 at full retirement age would be better, but that would require maximum taxable Social Security earnings for at least 35 years. If you postpone claiming Social Security after reaching full retirement age, your benefit increases by 8% annually. For example, if you were born in 1960 or later, your full retirement age will be 67 under current law, so working until age 70 would increase your benefit by 24%.<sup>3</sup>

According to the most recent trustees report, Social Security may be able to pay out only 77% of scheduled retirement benefits beginning in 2034, unless Congress takes action to strengthen the program.<sup>4</sup> Considering the importance of Social Security, it seems unlikely that benefits will be reduced to that level, but this is another reason not to count too much on Social Security benefits for retirement income.

#### Not paying off debts

Carrying heavy debt can be a strain at any stage of life, but it can be especially difficult for retirees living on a fixed income. Paying off your home before you retire not only reduces your monthly expenses but also provides equity that could be tapped if necessary for future needs. Before paying off your mortgage, however, it might be wise to pay off credit cards and other high-interest loans.

The road to retirement can be challenging, but avoiding the mistakes made by those who have traveled before you may help you reach your destination with fewer regrets.

<sup>1-2</sup> National Association of Plan Advisors, December 8, 2018

<sup>3-4</sup> Social Security Administration, 2019



## Key Retirement and Tax Numbers for 2020

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 2020.

### Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$19,500 in compensation in 2020 (up from \$19,000 in 2019); employees age 50 and older can defer up to an additional \$6,500 in 2020 (up from \$6,000 in 2019).
- Employees participating in a SIMPLE retirement plan can defer up to \$13,500 in 2020 (up from \$13,000 in 2019), and employees age 50 and older can defer up to an additional \$3,000 in 2020 (the same as in 2019).

### IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2020 (the same as in 2019), 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 phases out for the following modified adjusted gross income (MAGI) ranges:

	2019	2020
<b>Single/head of household (HOH)</b>	\$64,000 - \$74,000	\$65,000 - \$75,000
<b>Married filing jointly (MFJ)</b>	\$103,000 - \$123,000	\$104,000 - \$124,000
<b>Married filing separately (MFS)</b>	\$0 - \$10,000	\$0 - \$10,000

**Note:** The 2020 phaseout range is \$196,000 - \$206,000 (up from \$193,000 - \$203,000 in 2019) 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 adjusted gross income phaseout ranges for individuals to make contributions to a Roth IRA are:

	2019	2020
<b>Single/HOH</b>	\$122,000 - \$137,000	\$124,000 - \$139,000
<b>MFJ</b>	\$193,000 - \$203,000	\$196,000 - \$206,000
<b>MFS</b>	\$0 - \$10,000	\$0 - \$10,000

### Estate and gift tax

- The annual gift tax exclusion for 2020 is \$15,000, the same as in 2019.
- The gift and estate tax basic exclusion amount for 2020 is \$11,580,000, up from \$11,400,000 in 2019.

### Standard deduction

	2019	2020
<b>Single</b>	\$12,200	\$12,400
<b>HOH</b>	\$18,350	\$18,650
<b>MFJ</b>	\$24,400	\$24,800
<b>MFS</b>	\$12,200	\$12,400

**Note:** The additional standard deduction amount for the blind or aged (age 65 or older) in 2020 is \$1,650 (the same as in 2019) for single/HOH or \$1,300 (the same as in 2019) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

### Alternative minimum tax (AMT)

	2019	2020
<b>Maximum AMT exemption amount</b>		
<b>Single/HOH</b>	\$71,700	\$72,900
<b>MFJ</b>	\$111,700	\$113,400
<b>MFS</b>	\$55,850	\$56,700
<b>Exemption phaseout threshold</b>		
<b>Single/HOH</b>	\$510,300	\$518,400
<b>MFJ</b>	\$1,020,600	\$1,036,800
<b>MFS</b>	\$510,300	\$518,400
<b>26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount</b>		
<b>MFS</b>	\$97,400	\$98,950
<b>All others</b>	\$194,800	\$197,900
<b>*Alternative minimum taxable income</b>		





**EBRI consistently finds that setting a savings goal increases the level of confidence among today's workers. Despite that fact, just 42% of survey respondents have tried to determine a total retirement savings goal, and less than one-third have tried to calculate how much they may need for medical expenses. Of those who have calculated a total savings goal, 34% have found they will need \$1 million or more to retire comfortably.**

**Source: 2019 Retirement Confidence Survey, EBRI**

## Five Retirement Lessons from Today's Retirees

Each year for its Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) surveys 1,000 workers and 1,000 retirees to assess how confident they are in their ability to afford a comfortable retirement. Once again, in 2019, retirees expressed stronger confidence than workers: 82% of retirees reported feeling "very" or "somewhat" confident, compared with 67% of workers. A closer look at some of the survey results reveals various lessons today's workers can learn from current retirees.

### Current sources of retiree income

Let's start with a breakdown of the percentage of retirees who said the following resources provide at least a minor source of income:

- Social Security: 88%
- Personal savings and investments: 69%
- Defined benefit/traditional pension plan: 64%
- Individual retirement account: 61%
- Workplace retirement savings plan: 54%
- Product that guarantees monthly income: 33%
- Work for pay: 25%

### Lesson 1: Don't count on work-related earnings

Perhaps the most striking percentage is the last one, given that 74% of today's workers expect work-related earnings to be at least a minor source of income in retirement. Currently, just one in four retirees works for pay.

### Lesson 2: Have realistic expectations for retirement age

Building upon Lesson 1, it may benefit workers to proceed with caution when estimating their retirement age, as the Retirement Confidence Survey consistently finds a big gap between workers' expectations and retirees' actual retirement age.

In 2019, the gap is three years: Workers said they expect to retire at the median age of 65, whereas retirees said they retired at a median age of 62. Three years can make a big difference when it comes to figuring out how much workers need to accumulate by their first year of retirement. Moreover, 34% of workers reported that they plan to retire at age 70 or older (or not at all), while just 6% of current retirees fell into this category. In fact, almost 40% of retirees said they retired before age 60. The reality is that more than four in 10 retirees retired earlier than planned, often due to a health issue or change in their organizations.

Estimating retirement age is one area where workers may want to hope for the best but prepare for the worst.

### Lesson 3: Income is largely a result of individual savings efforts

Even though 64% of current retirees have defined benefit or pension plans, an even larger percentage say they rely on current savings and investments, and more than half rely on income from IRAs and/or workplace plans. Current workers are much less likely to have defined benefit or pension plans, so it is even more important that they focus on their own savings efforts.

Fortunately, workers appear to be recognizing this fact, as 82% said they expect their workplace retirement savings plan to be a source of income in retirement, with more than half saying they expect employer plans to play a "major" role.

### Lesson 4: Some expenses, particularly health care, may be higher than expected

While most retirees said their expenses were "about the same" or "lower than expected," approximately a third said their overall expenses were higher than anticipated. Nearly four out of 10 said health care or dental expenses were higher.

Workers may want to take heed from this data and calculate a savings goal that accounts specifically for health-care expenses. They may also want to familiarize themselves with what Medicare does and does not cover (e.g., dental and vision costs are not covered) and think strategically about a health savings account if they have the opportunity to utilize one at work.

### Lesson 5: Keep debt under control

Just 26% of retirees indicated that debt is a problem, while 60% of workers said this is the case for them. Unfortunately, debt can hinder retirement savings success: seven in 10 workers reported that their non-mortgage debt has affected their ability to save for retirement. Also consider that 32% of workers with a major debt problem were not at all confident about having enough money to live comfortably in retirement, compared with just 5% of workers who don't have a debt problem.

As part of their overall financial strategy, workers may want to develop a plan to pay down as much debt as possible prior to retirement.





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### What health services aren't covered by Medicare?

Original Medicare — Part A hospital insurance and Part B medical insurance — offers broad coverage, but many services are not covered.

Some may be fully or partially covered by a Part C Medicare Advantage Plan, which replaces Original Medicare, or a Medigap policy, which supplements Original Medicare. Both are offered by Medicare-approved private insurers. (You cannot have both a Medicare Advantage Plan and a Medigap policy.)

Whether you are looking forward to Medicare in the future or are already enrolled, you should consider these potential expenses.

#### Deductibles, copays, and coinsurance.

Costs for covered services can add up, and — unlike most private insurance — there is no annual out-of-pocket maximum. Medicare Advantage and Medigap plans may pay all or a percentage of these costs and may include an out-of-pocket maximum.

**Prescription drugs.** For coverage, you need to enroll in a Part D prescription drug plan or a Medicare Advantage plan that includes drug coverage.

**Dental and vision care.** Original Medicare does not cover routine dental or vision care. Some Medicare Advantage and Medigap plans may offer coverage for either or both of these needs. You might also consider private dental and/or vision insurance.

**Hearing care and hearing aids.** Some Medicare Advantage plans may cover hearing aids and exams.

#### Medical care outside the United States.

Original Medicare does not offer coverage outside the United States. Some Medicare Advantage and Medigap plans offer coverage for emergency care abroad. You can also purchase a private travel insurance policy.

**Long-term care.** Medicare does not cover "custodial care" in a nursing home or home health care. You may be able to purchase long-term care (LTC) insurance from private insurers.

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

### How much will health care cost?

Retirement health-care costs will vary depending on your health and longevity, but it may help to have a guideline. These are the estimated savings required for an individual or couple who turned 65 in 2019 to have a 90% chance of meeting expenses for Medicare Part B health insurance, Part D prescription drug coverage, Medigap Plan F, and out-of-pocket drug costs, assuming median prescription drug expenses.\* These estimates do not include services not covered by Medicare or Medigap.



\*Medigap Plan F is used for these estimates because it is the most comprehensive coverage available and simplifies the calculation. However, this plan may not be available for new beneficiaries after January 1, 2020. Current enrollees may keep Plan F, and most other plans will remain available for new enrollees.

Source: Employee Benefit Research Institute, 2019



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## Long-Term Care Insurance

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When financial planners model a client's future assets, perhaps the biggest unknown is the potential use and cost of long-term care. According Genworth's 2018 Cost of Care Survey, the median annual cost for a private room in a nursing home facility is over \$100,000. The median annual cost for a home health aide is \$50,000.

Of course, not everyone will have dementia or require a long stay at a nursing home facility. In fact, Genworth's survey noted that two-thirds of retirees may not have any sustained long-term care expenses (generally meaning longer than 100 days) while the other third could have costs exceeding \$500,000 (per person).

Unfortunately, Medicare generally does not provide for what we are calling long-term care (Medicare will generally provide up to 100 days of rehabilitative care but only if the patient is expected to get better). After that, the only time the government will assist with the cost is when the retiree has basically exhausted their financial resources – when Medicaid will step in to help.

Long-term care insurance can assist in meeting some of a future retiree's long-term care costs. These policies will generally cover a portion of the costs for a defined period, such as three years, greatly reducing a retirement plan's future uncertainties. There are also life insurance and annuity contracts that provide long-term care benefits.

Unfortunately, long-term care insurance can be expensive depending on the "bells and whistles" that are added. In addition, during the past several years, it seems that several insurance companies have exited the market – with life insurance companies picking up some of the slack.

No one wants to have to use long-term care insurance. Insurance is there for a financial hedge against the potential cost as well as provide some piece of mind. The key question that everyone needs to ask themselves is whether it is worth providing a level of protection against one of retirement's biggest unknown expenses?



## Protecting Your Data

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It seems that our personal data is easily stolen. We all have been warned about emailing sensitive information – either inside the body of the email or as an attachment. And yet we still do it. Many companies still send out credit card forms and signature details. Medical offices use email for their patient communication. Many people simply accept and return these emails containing everything from their financial balances to their medical history. We are trading convenience for security.

Emails are vulnerable to cyber theft because they are stored in several different places, including, of course, the sender's and receiver's device. If someone hacks into your computer, your email is just sitting there for them to read. Rifling through email is now the most common process of malware, and malware is everywhere. The other points of possible attack are the sender's / receiver's Internet Service Provider (think Gmail). In addition, there are many network connections between your devices and these email providers. How could you possibly know if all those connections are secure?

And that's not the only place where a copy of your email might be stored. Each email service provider keeps messages in archive on its own servers, which can be hacked and messages downloaded by cyberthieves. The bottom line: once an email message leaves your server, or leaves the sender's server, it's out of control.

What can you do? The first and simplest rule of cyber safety is never to send sensitive information in an email message or an attachment (unless it is encrypted). That means avoid including Social Security numbers, passwords, sensitive tax or investment account information, and even date of birth in your messages, even to people you trust.

If you must communicate this type of information, there are a variety of safer ways such as uploading the data to a shared folder (such as OneDrive or Google Drive). You could encrypt your email messages using programs like Infoencrypt or SafeGmail. The messages are encrypted at the sender's computer and decrypted within the recipient's browser, and they remain encrypted in both the sender's and receiver's email boxes. Hackers who gain access to your computer, to the service providers or the archives come away with nothing but unreadable gibberish.

Yes, protecting yourself sounds like a hassle (and it is). But, these programs, and others, are much more user-friendly than they were ten years ago. Remember,

that being security focused takes a lot less time than trying to deal with a stolen identify.



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## Changes to Tax Withholding

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The Tax Cut and Jobs Act (TCJA) made it difficult for taxpayers to estimate how much tax should be withheld from their paychecks. Unfortunately, many under withheld and, as a result, either had to pay more or did not get as large of refund.

A new updated Form W-4 now reflects the changes of the TCJA. This includes such things as the doubling of the standard deduction, eliminating personal exemptions, and limits on certain itemized deductions. The new form is located at [www.irs.gov/pub/irs-pdf/fw4.pdf](http://www.irs.gov/pub/irs-pdf/fw4.pdf).

The new form will ask you to account for multiple jobs within your household, and to spell out the details of any other income that didn't have taxes withheld, including interest, dividends and retirement income. An additional section asks taxpayers to claim their dependents, and to factor in the \$2,000 child tax credit for those under 17, or the \$500 credit for other qualifying dependents.

Retirees also need to reevaluate their withholding amounts. They can use Form W-4V to withhold a flat rate from their Social Security check or Form W-4P to withhold from their pension.

Tax experts say the best way to fill out the new W-4 is to sit down with an expert or tax preparer – having last year's Form 1040 in front of you. Doing that, as well as adjusting for any significant income fluctuations that occurred, will hopefully allow you to withhold the proper amount.