HELPING YOU UNDERSTAND THE COMPLEXITIES OF WEALTH MANAGEMENT AND PROVIDING SOLUTIONS AS UNIQUE AS YOUR GOALS

WEALTH MANAGEMENT NEWSLETTER

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COMPANY STOCK AND YOUR PORTFOLIO: KEEP YOUR EYE ON CONCENTRATION RISK

The opportunity to acquire company stock—inside or outside a workplace retirement plan—can be a lucrative employee benefit. But having too much of your retirement plan assets or net worth concentrated in your employer's stock could become a problem if the company or sector hits hard times and the stock price plummets.

Buying shares of any individual stock carries risks specific to that company or industry. A shift in market forces, regulation, technology, competition—even mismanagement, scandals and other unexpected events—could damage the value of the business. Worst case, the stock price may never recover. Adding to this risk, employees who own shares of company stock depend on the same company for their income and benefits.

Time for a concentration checkup?

The possibility of heavy losses from having a large portion of portfolio holdings in one investment, asset class or market segment is known as concentration risk. With company stock, this risk can build up gradually.

An employee's compensation could include stock options or bonuses paid in company stock. Shares may be offered at a small discount through an employee stock purchase plan, where they are typically purchased through payroll deductions and held in a taxable account. Company stock might also be one of the investment options in the employer's tax-deferred 401(k) plan, and some employers may match contributions with company stock instead of cash.

Investors who build large positions in company stock may not be paying attention to the concentration level in their portfolios, or they could simply be ignoring the risk, possibly because they are overly optimistic about their employer's future. Retirement plan participants might choose familiar company stock over more diversified funds because they believe they know more about their employer than about the other investment options.

What can you do to help manage concentration risk?

Look closely at your holdings. What percentage of your total assets does company stock represent? There are no set guidelines, but holding more than 10 percent to 15 percent of your assets in company stock could upend your retirement plan and your overall financial picture if the stock suddenly declines in value.

If you work for a big company, you may also own shares of diversified mutual funds or exchange-traded funds that hold large positions in your employer's stock or the stock of companies in the same industry.

Formulate a plan for diversifying your assets. This may involve liquidating company shares systematically or possibly right after they become vested. However, it's important to consider the rules, restrictions, and time frames for liquidating company stock, as well as any possible tax consequences.

For example, special net unrealized appreciation (NUA) rules may apply if you sell appreciated company stock in a taxable account, but not if you sell stock inside your 401(k) account and reinvest in other plan options, or if you roll the stock over to an IRA. You could miss out on potential tax savings, because future distributions would generally be taxed at higher ordinary income tax rates.

An appropriate allocation of company stock will largely depend on your goals, risk tolerance and time horizon—factors you may want to review with a financial professional. It may also be helpful to seek an impartial assessment of your company's potential as you weigh additional stock purchases and make decisions about keeping or selling shares you already own.

All investments are subject to market fluctuation, risk and loss of principal. When sold, investments may be worth more or less than their original cost. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

DOES YOUR BUSINESS NEED A BUY-SELL AGREEMENT?

When you're mired deep in the day-to-day challenges of the management of your business, it's often hard to step out of the trees and take a good hard look at the forest. But at various points in the business cycle, it's important to do just that. For example, one of the key decisions you'll need to consider is what would happen to your business if you decide to step away, or you die or become permanently disabled. A buy-sell agreement can be a useful tool in helping you plan for these circumstances.

What is a buy-sell agreement?

A buy-sell agreement is a legally binding agreement that establishes when, to whom and at what price you can sell your interest in a business. Buy-sell agreements are also known as business continuation agreements and buyout agreements.

You can create a buy-sell as a separate agreement or you can include certain provisions addressing the buy-sell issues in a business's operating agreement. Regardless, the agreement or provisions must clearly identify the potential buyer, any restrictions and limitations, and the conditions under which a sale will occur. Under the terms of the agreement, you and the buyer enter into a contract for the transfer of your business interest by you (or your estate) at the time of a specified triggering event. Typical triggering events include death, long-term disability, retirement, divorce, personal insolvency or bankruptcy, criminal conviction, loss of professional license, and resignation or termination of employment.

A well-crafted buy-sell agreement creates a market for your business interest, establishes its price, and provides cash to complete the business purchase. The ability to fix the purchase price as the taxable value of your business makes a buy-sell agreement especially useful in estate planning. That's because if death is the triggering event, it can help reduce the estate tax burden on your heirs. Additionally, because funding for a buy-sell agreement is typically arranged when the agreement is executed, you're able to ensure that funds will be available when needed, providing your estate with liquidity that may be needed for expenses and taxes.

Pricing the company and funding a buy-sell agreement

A buy-sell should establish a formula for determining the purchase price or state the price outright. Without establishing this price in advance, lengthy disputes and lawsuits can arise at the time the ownership interest must be bought back. When the buy-sell involves family members, it must also be proven that the transaction is comparable to an arms-length sale between unrelated people and was entered into for a bona fide business purpose.

After determining the value of the business, you, your advisors and other parties to the agreement will determine the best way to fund the transaction and the triggers appropriate for your business situation. There are many different ways to fund a buy-sell agreement, including a sinking fund, cash, borrowed funds, installment sale, self-canceling installment note, private annuity, life insurance and disability insurance. Depending on the situation, one or more of the possible methods may be used.

Types of structures

Buy-sell agreements can be structured to meet the needs of both the business and its owner(s), taking into consideration tax consequences and individual goals. Following are three types of buy-sell agreements, along with brief descriptions of each:

- An **entity purchase (or redemption) buy-sell** obligates the business to buy the interests of the departing owner(s).
- With a **cross-purchase buy-sell**, each owner agrees to buy a share of the departing owner's interest. The business is not a party to the transaction.
- A **wait-and-see buy-sell** is used when the parties are unsure whether the business or the owners will buy the business interest. Typically, the business is given the first option, and if it is not exercised, the remaining owners are given the opportunity. If the remaining owners do not wish to buy, the business must purchase the interest.

Other considerations

Keep in mind that there are costs and possible disadvantages involved in establishing a buy-sell agreement. One such disadvantage is that the agreement typically limits your freedom to sell the business to outside parties.

If you think that a buy-sell agreement might benefit you and your business, consult your attorney, accountant and financial professional.

DEMOGRAPHIC DILEMMA: IS AMERICA'S AGING POPULATION SLOWING DOWN THE ECONOMY?

It's no secret that the demographic profile of the United States is growing older at a rapid pace. While the U.S. population is projected to grow just 8 percent between 2015 and 2025, the number of older Americans ages 70 to 84 will skyrocket 50 percent.[1]

With roughly 75 million members, baby boomers (born between 1946 and 1964) make up the largest generation in U.S. history. As a group, boomers have longer life expectancies and had fewer children than previous generations.[2]

Now, after dominating the workforce for nearly 40 years, boomers are retiring at a rate of around 1.2 million a year, about three times more than a decade ago.[3]

Though the economy has continued to improve since the Great Recession, gross domestic product (GDP) growth has been weak compared with past recoveries. A number of economists believe that demographic changes may be the primary reason.[4]

Spending shifts

The lower birth rates in recent decades generally mean that fewer young people are joining the workforce, so the consumer spending that fuels economic expansion and job creation could take a hit. When young people earn enough money to strike out on their own, marry and start families, it typically spurs additional spending—on places to live, furniture and appliances, vehicles, and other products and services that are needed to set up a new household.

On the other hand, when people retire, they typically reduce their spending and focus more on preserving their savings. Moreover, retirees' spending habits are often different from when they were working. As a group, retirees tend to avoid taking on debt, have more equity built up in their homes, and may be able to downsize or move to places with lower living costs. More spending is devoted to covering health-care costs as people age.

If a larger, older population is spending less and the younger population is too small to drive up consumer spending, weaker overall demand for products and services could restrain GDP growth and inflation over the long term. Less borrowing by consumers and businesses could also put downward pressure on interest rates.

A new normal?

The onslaught of retiring baby boomers has long been expected to threaten the viability of Social Security and Medicare, mainly because both are funded by payroll taxes on current workers. But this may not be the only challenge.

A 2016 working paper by Federal Reserve economists concluded that declining fertility and labor force participation rates, along with increases in life expectancies, accounted for a 1.25 percentage point decline in the natural rate of real interest and real GDP growth since 1980. Furthermore, the same demographic trends are expected to remain a structural impediment to economic growth for years to come.[5]

Put simply, a nation's potential GDP is a product of the number of workers times the productivity (output) per worker, and the U.S. workforce is shrinking in relation to the total population.

The labor force participation rate—the percentage of the civilian labor force age 16 and older who are working or actively looking for work—peaked at 67.3 percent in early 2000, not coincidentally the last time GDP grew by more than 4 percent. The participation rate has dropped steadily since then; in August 2017, it was 62.9 percent. This reflects lower birth rates, increased college enrollment, some men in their prime working years dropping out of the labor force, and large numbers of retiring baby boomers.[6]

Many economists acknowledge that U.S. population trends are a force to be reckoned with, but the potential impact is still up for debate. Some argue that labor shortages could drive up wages and spending relatively soon, followed by higher growth, inflation and interest rates—until automated technologies start replacing larger numbers of costly human workers.[7]

Even if demographic forces continue to restrain growth, it might not spell doom for workforce productivity and the economy. Another baby boom would likely be a catalyst for consumer spending. Family-friendly policies such as paid maternity leave and day-care assistance could provide incentives for women with children to remain in the workforce. It's also possible that a larger percentage of healthy older workers may delay retirement—a trend that is already developing—and continue to add their experience and expertise to the economy.[8]

1, 3) The Conference Board, Feb. 24, 2017
2) *The Wall Street* Journal, Jan. 16, 2017
4–5) Federal Reserve, 2016
6, 8) *The Financial Times*, Oct. 25, 2016
7) U.S. Bureau of Labor Statistics, 2016–2017, Bureau of Economic Analysis 2017

HOW DO TIPS HELP FIGHT INFLATION?

One way to help protect your portfolio against a sudden spike in inflation is by investing in Treasury Inflation-Protected Securities (TIPS).

TIPS are guaranteed by the federal government as to the timely payment of principal and interest. They are sold in $100 increments and available in maturities of 5, 10 and 30 years. The principal is automatically adjusted twice a year to match any increases or decreases in the Consumer Price Index (CPI). If the CPI moves up or down, the Treasury recalculates your principal.

A fixed rate of interest is paid twice a year based on the current principal, so the amount of interest may also fluctuate. Thus, you are trading the certainty of knowing exactly how much interest you'll receive for the assurance that your investment will maintain its purchasing power over time.

TIPS pay lower interest rates than equivalent Treasury securities that don't adjust for inflation. The difference between the yield of nominal bonds and inflation-linked bonds with similar maturities is called the breakeven inflation rate. It is the cost for inflation protection and a market-based measure of expected inflation.

If you hold TIPS to maturity, you will receive the greater of the inflation-adjusted principal or the amount of your original investment; this provides the benefit of keeping up with inflation while protecting against deflation. Considering that there has been some inflation every year over the past 60 years, the principal of TIPS held to maturity is likely to be higher than when they were purchased.[1]

The return and principal value of TIPS on the secondary market fluctuate with market conditions. If not held to maturity, TIPS may be worth more or less than their original value. They are also sensitive to movements in interest rates. When interest rates rise, the value of existing TIPS will typically fall. Because headline CPI includes food and energy prices, TIPS can also be affected by volatile oil prices.

Unless you own TIPS in a tax-deferred account, you must pay federal income tax each year on the interest income plus any increase in principal, even though you won't receive that money until they mature.

[1]U.S. Bureau of Labor Statistics, 2017 (data through December 2016)

IS THE SOCIAL SECURITY ADMINISTRATION STILL MAILING SOCIAL SECURITY STATEMENTS?

Your Social Security Statement provides important information about your Social Security record and future benefits. For several years, the Social Security Administration (SSA) mailed these statements every five years to people starting at age 25, but due to budgetary concerns, the SSA has stopped mailing Social Security Statements to individuals under age 60.

Workers age 60 and over who aren't receiving Social Security benefits will still receive paper statements in the mail, unless they opt to sign up for online statements instead. If you're age 60 or older, you should receive your statement every year, about three months before your birthday. The SSA will mail statements upon request to individuals under age 60.

However, the quickest way to get a copy of your Social Security Statement is to sign up for a *my* Social Security account at the SSA website, ssa.gov. Once you've signed up, you'll have immediate access to your statement, which you can view, download or print. Statement information generally includes a projection of your retirement benefits at age 62, at full retirement age (66 to 67) and at age 70; projections of disability and survivor benefits; a detailed record of your earnings; and other information about the Social Security program.

The SSA has recently begun using a two-step identification method to help protect *my* Social Security accounts from unauthorized use and potential identity fraud. If you've never registered for an online account or haven't attempted to log in to yours since this change, you will be prompted to add either your cell phone or email address as a second identification method. Every time you enter your account username and password, you will then be prompted to request a unique security code via the identification method you've chosen, and you need to enter that code to complete the log-in process.

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