



THE COMPASS
WEALTH
GROUP

The Navigator

A QUARTERLY NEWSLETTER FROM THE COMPASS WEALTH GROUP

IS IT TIME TO DECLARE YOUR FINANCIAL INDEPENDENCE?

No matter how much money you have or which life stage you're in, becoming financially independent starts with a dream. Your dream might be to finally pay off the mountain of debt you've accumulated, or to stop relying on someone else for financial support. Or perhaps your dream is to retire early so you can spend more time with your family, travel the world, or open your own business. Financial independence, however you define it, is freedom from the financial obstacles that are keeping you from living life on your own terms.

ENVISION THE FUTURE

If you were to become financially independent, what would change? Would you spend your time differently? Live in another place? What would you own? Would you work part-time? Ultimately, you want to define how you choose to live your life. It's your dream, so there's no wrong answer.

WORK AT IT

Unless you're already wealthy, you may have had moments when winning the lottery seemed like the only way to become financially secure. But your path to financial independence isn't likely to start at your local convenience store's lottery counter.

Though there are many ways to become financially independent, most of them require hard work. And retaining wealth isn't necessarily easy, because wealth may not last if spending isn't kept in check. As income rises, lifestyle inflation is a real concern. Becoming — and remaining — financially independent requires diligently balancing earning, spending, and saving.

EARN MORE, SPEND WISELY, AND SAVE AGGRESSIVELY

Earn more. The bigger the gap between your income and expenses, the quicker it will be to become financially independent, no matter what your goal is. The more you can earn, the more you can potentially save. This might mean finding a job with a higher salary, working an extra job, or working part-time in retirement. And a job is just one source of income. If you're resourceful and able to put in extra hours, you may also be able to generate regular income in other ways — for example, renting out a garage apartment or starting a side business.

Spend wisely. Look for opportunities to reduce your spending without affecting your quality of life. For the biggest impact, focus on reducing your largest expenses — for example, housing, food, and transportation. Practicing mindful spending can also help you free up more money to save. Before you buy something nonessential, think about how important it is to you and what value it brings to your life so that you don't end up with a garage or attic filled with regrettable purchases.

Save aggressively. Set a wealth accumulation goal and then prioritize saving. Of course, if you have a substantial amount of debt, saving may be somewhat curtailed until that debt is paid off. Take simple steps such as choosing investments that match your goals and time frame, and paying yourself first by automatically investing as much as possible in a retirement savings plan. Time is an important ally in the quest for financial independence, so start saving as early as possible and build your nest egg over time. (Note that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.)

KEEP GOING

Make adjustments. Life changes. Unexpected bills come up. Some years will be tougher financially than others. Expect to make some adjustments to your plan along the way, especially if you have a long-term time frame, but keep going.

Track your progress. Celebrate both small milestones and big victories. Seeing the progress you're making will help you stay motivated as you pursue your dream of financial independence.



CHARITABLE GIVING AFTER TAX REFORM



Tax reform changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from charitable giving. Projecting how you'll be affected by these changes while there's still time to take action is important.

INCOME TAX BENEFIT OF CHARITABLE GIVING

If you itemize deductions on your federal income tax return, you can generally deduct your gifts to qualified charities. However, many itemized deductions have been eliminated or restricted, and the standard deduction has substantially increased. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Taxpayers whose total itemized deductions other than charitable contributions would be less than the standard deduction (including adjustments for being blind or age 65 or older) effectively have less of a tax savings incentive to make charitable gifts. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of \$15,000. They would have a standard deduction of \$27,000 in 2019. The couple would effectively receive no tax savings for the first \$12,000 of charitable contributions they make. Even with a \$12,000 charitable deduction, total itemized deductions of \$27,000 would not exceed their standard deduction.

Taxpayers whose total itemized deductions other than charitable contributions equal or exceed the standard deduction (including adjustments for being blind or age 65 or older) generally receive a tax benefit from charitable contributions equal to the income taxes saved. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of \$30,000. They would be entitled to a standard deduction of \$27,000 in 2019. If they are in the 24% income tax bracket and make a charitable contribution of \$10,000, they would reduce their income taxes by \$2,400 (\$10,000 charitable deduction x 24% tax rate).

However, the amount of your income tax charitable deduction may be limited to certain percentages of your adjusted gross income (AGI). For example, your deduction for gifts of cash to public charities is generally limited to 60% of your AGI for the year, and other gifts to charity are typically limited to 30% or 20% of your AGI. Charitable deductions that exceed the AGI limits may generally be carried over and deducted over the next five years, subject to the income percentage limits in those years.

YEAR-END TAX PLANNING

When making charitable gifts during the year, you should consider them as part of your year-end tax planning. Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the

lowest rate possible, and to time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

For example, if you expect that you will be in a higher tax bracket next year, it may make sense to wait and make the charitable contribution in January so you can take the deduction next year when the deduction results in a greater tax benefit. Or you might shift the charitable contribution, along with other itemized deductions, into a year when your itemized deductions would be greater than the standard deduction amount. And if the income percentage limits above are a concern in one year, you might consider ways to shift income into that year or shift deductions out of that year, so that a larger charitable deduction is available for that year. A tax professional can help you evaluate your individual tax situation.

QUALIFIED CHARITABLE DISTRIBUTION (QCD)

If you are age 70½ or older, you can make tax-free charitable donations directly from your IRAs (other than SEP and SIMPLE IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to \$100,000 of these QCDs from your gross income each year. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional \$100,000 of QCDs.

You cannot deduct QCDs as a charitable contribution because the QCD is excluded from your gross income. In order to get a tax benefit from your charitable contribution without this special rule, you would have to itemize deductions, and your charitable deduction could be limited by the percentage of AGI limitations. QCDs may allow you to claim the standard deduction and exclude the QCD from income.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA, just as if you had received an actual distribution from the plan.

CAUTION: Your QCD cannot be made to a private foundation, donor-advised fund, or supporting organization. Further, the gift cannot be made in exchange for a charitable gift annuity or to a charitable remainder trust.

HOW LONG COULD IT TAKE TO DOUBLE YOUR MONEY?

If you're saving for college, retirement, or a large purchase, it can be useful to quickly calculate how an anticipated annual rate of return will affect your money over time. To find out, you can use a mathematical concept known as the Rule of 72. This rule can give you a close approximation of how long it would take for your money to double at any given rate of return, assuming annual compounding.

To use this rule, you simply divide 72 by your anticipated annual rate of return. The result is the approximate number of years it will take for your money to double.

For example, if your anticipated annual rate of return is 6%, you would divide 72 by 6. Your money can be expected to double in about 12 years. But if your anticipated annual rate of return is 8%, then your money can be expected to double in about 9 years.

The Rule of 72 can also be used to determine what rate of return you would need to double your money in a certain number of years. For example, if you have 12 years to double your money, then dividing 72 by 12 would tell you that you would need a rate of return of 6%.

Another way to use the Rule of 72 is to determine when something will be halved instead of doubled. For example, if you would like to estimate how long it would take for annual inflation to eat into your savings, you could divide 72 by the rate of inflation. For example, if inflation is 3%, then it would take 24 years for your money to be worth half its current value. If inflation jumped to 4%, then it would take only 18 years for your purchasing power to be halved.

Although using a calculator will give you more precise results, the Rule of 72 is a useful shortcut that can help you understand how long it might take to reach a financial goal, and what annual rate of return you might need to get there.

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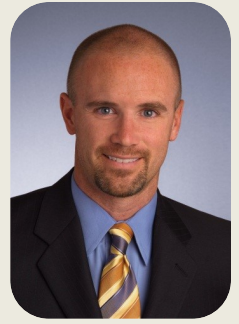
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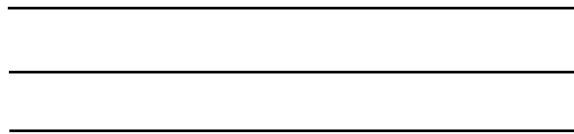
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