



# Macke Financial Advisory Group

## Wealth Management & Life Planning

### What's Your Money Script?



Money is power. A fool and his money are soon parted. A penny saved is a penny earned. Money is the root of all evil.

Do any of these expressions ring true for you?

As it turns out, the money beliefs our families espoused while we were growing up may have a profound effect on how we behave financially today — and may even influence our financial success.

#### Beliefs drive behaviors

In 2011, *The Journal of Financial Therapy* published a study by financial psychologist Brad Klontz et al., that gauged the reactions of 422 individuals to 72 money-related statements.<sup>1</sup> Examples of such statements include:

- There is virtue in living with less money
- Things will get better if I have more money
- Poor people are lazy
- It is not polite to talk about money

Based on the findings, Klontz was able to identify four "money belief patterns," also known as "money scripts," that influence how people view money. Klontz has described these scripts as "typically unconscious, trans-generational beliefs about money" that are "developed in childhood and drive adult financial behaviors."<sup>2</sup> The four categories are:

**1. Money avoidance:** People who fall into this category believe that money is bad and is often a source of anxiety or disgust. This may result in a hostile attitude toward the wealthy. Paradoxically, these people might also feel that all their problems would be solved if they only had more money. For this reason, they may unconsciously sabotage their own financial efforts while working extra hours just to make ends meet.

**2. Money worship:** Money worshippers believe that money is the route to true happiness, and one can never have enough. They feel that they will never be able to afford everything they want. These people may shop compulsively, hoard their belongings, and put work ahead of relationships in the ongoing quest for wealth.

**3. Money status:** Similar to money worshippers, these people equate net worth with self-worth, believing that money is the key to both happiness and power. They may live lavishly in an attempt to keep up with or even beat the Joneses, incurring heavy debt in the process. They are also more likely than those in other categories to be compulsive gamblers or to lie to their spouses about money.

**4. Money vigilance:** Money vigilants are cautious and sometimes overly anxious about money, but they also live within their means, pay off their credit cards every month, and save for the future. However, they risk carrying a level of anxiety so high that they cannot enjoy the fruits of their labor or ever feel a sense of financial security.

#### Awareness is the first step

According to Klontz's research, the first three money scripts typically lead to destructive financial behaviors, while the fourth is the one to which most people would want to aspire. If you believe you may fit in one of the self-limiting money script categories, consider how experiences in your childhood or the beliefs of your parents or grandparents may have influenced this thinking. Then do some reality-checking about the positive ways to build and manage wealth. As in other areas of behavioral finance and psychology in general, awareness is often the first step toward addressing the problem.

<sup>1</sup> "Money Beliefs and Financial Behaviors," *The Journal of Financial Therapy*, Volume 2, Issue 1

<sup>2</sup> Financial Planning Association, accessed October 24, 2017

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I have a special announcement to make. Curtis, who graduated Magna Cum Laude from Palm Beach Atlantic University in December, also passed his Series 65 exam on the first try. This exam is what allows Curtis to operate as an investment adviser. Many people struggle with this exam. Curtis has worked with us since June of 2014 and for the last year, has been working on coordinating the Orion platform. Orion, if you recall, allows you to monitor the performance of your investments. Most of you have already seen the information from that, and if you haven't yet, keep watching to hear from Curtis about it. Orion holds 14 years worth of data to empower you to keep track of what's happening with your money.

#### February 2018

Key Retirement and Tax Numbers for 2018

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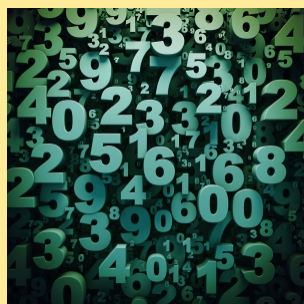
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## Key Retirement and Tax Numbers for 2018



*\*The Tax Cuts and Jobs Act made significant changes to the estate and gift tax, the personal exemption, the standard deduction, and the alternative minimum tax, which are included here.*

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2018.\*

### Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$18,500 in compensation in 2018 (up from \$18,000 in 2017); employees age 50 and older can defer up to an additional \$6,000 in 2018 (the same as in 2017).
- Employees participating in a SIMPLE retirement plan can defer up to \$12,500 in 2018 (the same as in 2017), and employees age 50 and older can defer up to an additional \$3,000 in 2018 (the same as in 2017).

### IRAs

The limit on annual contributions to an IRA remains unchanged at \$5,500 in 2018, 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 is phased out for the following modified adjusted gross income (AGI) ranges:

	2017	2018
<b>Single/head of household (HOH)</b>	\$62,000 - \$72,000	\$63,000 - \$73,000
<b>Married filing jointly (MFJ)</b>	\$99,000 - \$119,000	\$101,000 - \$121,000
<b>Married filing separately (MFS)</b>	\$0 - \$10,000	\$0 - \$10,000

**Note:** The 2018 phaseout range is \$189,000 - \$199,000 (up from \$186,000 - \$196,000 in 2017) 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 AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

	2017	2018
<b>Single/HOH</b>	\$118,000 - \$133,000	\$120,000 - \$135,000
<b>MFJ</b>	\$186,000 - \$196,000	\$189,000 - \$199,000
<b>MFS</b>	\$0 - \$10,000	\$0 - \$10,000

### Estate and gift tax

- The annual gift tax exclusion for 2018 is \$15,000, up from \$14,000 in 2017.
- The gift and estate tax basic exclusion amount for 2018 is \$11,200,000, up from \$5,490,000 in 2017.

### Personal exemption

There is no personal exemption amount for 2018; it was \$4,050 in 2017. For 2018, there is no phaseout of personal exemptions or overall limit on itemized deductions once AGI exceeds certain thresholds.

**Note:** For 2017, personal exemptions were phased out and itemized deductions were limited once AGI exceeded \$261,500 (single), \$287,650 (HOH), \$313,800 (MFJ), or \$156,900 (MFS).

### Standard deduction

	2017	2018
<b>Single</b>	\$6,350	\$12,000
<b>HOH</b>	\$9,350	\$18,000
<b>MFJ</b>	\$12,700	\$24,000
<b>MFS</b>	\$6,350	\$12,000

**Note:** The additional standard deduction amount for the blind or aged (age 65 or older) in 2018 is \$1,600 (up from \$1,550 in 2017) for single/HOH or \$1,300 (up from \$1,250 in 2017) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

### Alternative minimum tax (AMT)

	2017	2018
<b>Maximum AMT exemption amount</b>		
<b>Single/HOH</b>	\$54,300	\$70,300
<b>MFJ</b>	\$84,500	\$109,400
<b>MFS</b>	\$42,250	\$54,700
<b>Exemption phaseout threshold</b>		
<b>Single/HOH</b>	\$120,700	\$500,000
<b>MFJ</b>	\$160,900	\$1,000,000
<b>MFS</b>	\$80,450	\$500,000
<b>26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount</b>		
<b>MFS</b>	\$93,900	\$95,750
<b>All others</b>	\$187,800	\$191,500
*Alternative minimum taxable income		





## 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% between 2015 and 2025, the number of older Americans ages 70 to 84 will skyrocket 50%.<sup>1</sup>

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.<sup>2</sup>

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.<sup>3</sup>

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.<sup>4</sup>

### 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.<sup>5</sup>

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% in early 2000, not coincidentally the last time GDP grew by more than 4%. The participation rate has dropped steadily since then; in August 2017, it was 62.9%. 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.<sup>6</sup>

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.<sup>7</sup>

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.<sup>8</sup>

1, 3) The Conference Board, February 24, 2017

2) *The Wall Street Journal*, January 16, 2017

4-5) Federal Reserve, 2016

6, 8) *The Financial Times*, October 25, 2016

7) U.S. Bureau of Labor Statistics, 2016-2017, Bureau of Economic Analysis 2017





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## 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](https://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.



## How do economists measure inflation, and why does it matter to investors?

The Federal Open Market Committee (FOMC) adjusts interest rates to help keep inflation near a 2% target. The

FOMC's preferred measure of inflation is the Price Index for Personal Consumption Expenditures (PCE), primarily because it covers a broad range of prices and picks up shifts in consumer behavior. The Fed also focuses on core inflation measures, which strip out volatile food and energy categories that are less likely to respond to monetary policy.

The typical American might be more familiar with the Consumer Price Index (CPI), which was the Fed's favorite inflation gauge until 2012. The Consumer Price Index for All Urban Consumers (CPI-U) is used to determine cost-of-living adjustments for federal income taxes and Social Security.

The CPI only measures the prices that consumers actually pay for a fixed basket of goods, whereas the PCE tracks the prices of everything that is consumed, regardless of who pays. For example, the CPI includes a patient's out-of-pocket costs for a doctor's visit, while the PCE considers the total charge billed to

insurance companies, the government, and the patient.

The PCE methodology uses current and past expenditures to adjust category weights, capturing consumers' tendency to substitute less expensive goods for more expensive items. The weighting of CPI categories is only adjusted every two years, so the index does not respond quickly to changes in consumer spending habits, but it provides a good comparison of prices over time.

According to the CPI, inflation rose 2.1% in 2016 — right in line with the 20-year average of 2.13%.<sup>1</sup> This level of inflation may not be a big strain on the family budget, but even moderate inflation can have a negative impact on the purchasing power of fixed-income investments. For example, a hypothetical investment earning 5% annually would have a "real return" of only 3% during a period of 2% annual inflation.

Of course, if inflation picks up speed, it could become a more pressing concern for consumers and investors.

<sup>1</sup> U.S. Bureau of Labor Statistics, 2017 (data through December 2016)



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