Greater Midwest Financial Group Quarterly News

Our Newsletter includes news that's fit to print and apolitical. We hope it's refreshing.

- **GMFG Corner:** Who are we and what are we up to? We thought you might enjoy getting to know us better.
- **Premier Education/Practical Application Corner:** A must read! In this edition you'll find:
  - **How Much Do You Really Know About Long-Term Care –** Separating some eldercare facts from some eldercare myths.
  - **The Flattening of the Yield Curve –** Why are investors and economists getting nervous about Treasury yields?
  - **How New Tax Laws Affect Small Businesses –** A recap of the major changes impacting corporations and closely held firms.

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GMFG Corner

- **Employee of the Quarter –** Congratulations to Paige Richardson! Paige is an integral part of our Case Management Team. Paige does an excellent job with case prep and case follow up. Thank you, Paige, for all your hard work, being a team player, and your great attitude!

- **We are delighted to announce that GMFG supported the following charities this quarter**:

Chris Fritch Team - Keller Williams benefit for the Dylan Witschen Foundation and St. Jude – funds raised in this event go towards scholarships for local college-bound students and also cancer research.

Girls Inc. of Santa Fe -Girl's Inc. provides girls throughout Santa Fe with life-changing experiences and real solutions to the unique issues girls face, giving them the tools and support they need to succeed, including mentoring and guidance in a safe, girls-only environment; peers who share their drive and aspirations; and research-based programming. At Girls Inc., girls learn to set and achieve goals, boldly confront challenges, resist peer pressure, and set attainable college-bound goals.

Masters Institute Annual Golf Fundraiser – proceeds are in support of preparing Christian Leaders to more accessible and affordable education.

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Education Corner

How Much Do You Really Know About Long-Term Care?

Separating some eldercare facts from some eldercare myths.

How much does eldercare cost, and how do you arrange it when it is needed? The average person might have difficulty answering those two questions, for the answers are not widely known. For clarification, here are some facts to dispel some myths.

True or false: Medicare will pay for your mom or dad's nursing home care.

FALSE, because Medicare is not long-term care insurance.[1]

Part A of Medicare will pay the bill for up to 20 days of skilled nursing facility care – but after that, you or your parents may have to pay some costs out-of-pocket. After 100 days, Medicare will not pay a penny of nursing home costs – it will all have to be paid out-of-pocket, unless the patient can somehow go without skilled nursing care for 60 days or 30 days including a 3-day hospital stay. In those instances, Medicare's "clock" resets.[2]

True or false: a semi-private room in a nursing home costs about $35,000 a year.

FALSE. According to Genworth Financial's most recent Cost of Care Survey, the median cost is now $85,775. A semi-private room in an assisted living facility has a median annual cost of $45,000 annually. A home health aide? $49,192 yearly. Even if you just need someone to help mom or dad with eating, bathing, or getting dressed, the median hourly expense is not cheap: non-medical home aides, according to Genworth, run about $21 per hour, which at 10 hours a week means nearly $11,000 a year.[3,4]

True or false: about 40% of today's 65-year-olds will eventually need long-term care.

FALSE. The Department of Health and Human Services estimates that close to 70% will. About a third of 65-year-olds may never need such care, but one-fifth are projected to require it for more than five years.[5]

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True or false: the earlier you buy long-term care insurance, the less expensive it is.

TRUE. As with life insurance, younger policyholders pay lower premiums. Premiums climb notably for those who wait until their mid-sixties to buy coverage. The American Association for Long-Term Care Insurance's 2018 price index notes that a 60-year-old couple will pay an average of $3,490 a year for a policy with an initial daily benefit of $150 for up to three years and a 90-day elimination period. A 65-year-old couple pays an average of $4,675 annually for the same coverage. This is a 34% difference.[6]

True or false: Medicaid can pay nursing home costs.

TRUE. The question is, do you really want that to happen? While Medicaid rules vary per state, in most instances a person may only qualify for Medicaid if they have no more than $2,000 in "countable" assets ($3,000 for a couple). Countable assets include bank accounts, equity investments, certificates of deposit, rental or vacation homes, investment real estate, and even second cars owned by a household (assets held within certain trusts may be exempt). A homeowner can even be disqualified from Medicaid for having too much home equity. A primary residence, a primary motor vehicle, personal property and household items, burial funds of less than $1,500, and tiny life insurance policies with face value of less than $1,500 are not countable. So yes, at the brink of poverty, Medicaid may end up paying long-term care expenses.[4,7]

Sadly, many Americans seem to think that the government will ride to the rescue when they or their loved ones need nursing home care or assisted living. Two-thirds of people polled in another Genworth Financial survey about eldercare held this expectation.[4]

In reality, government programs do not help the average household pay for any sustained eldercare expenses. The financial responsibility largely falls on you.

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A little planning now could make a big difference in the years to come. Call or email an insurance professional today to learn more about ways to pay for long-term care and to discuss your options. You need to find a way to address this concern, as it could seriously threaten your net worth and your retirement savings.

Citations.

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The Flattening of the Yield Curve

Why are investors and economists getting nervous about Treasury yields?

What is the yield curve, and why is the financial media writing about it? Here is a brief explanation, starting with a clarification.

A yield curve is really an X-Y graph projecting expected rates of return for equivalent-quality bonds with different maturity dates. But it is not just any yield curve that matters. When investors, commentators, and economists talk about "the yield curve," they are talking about the graph plotting the interest rates of Treasuries: 3-month, 2-year, 5-year, 10-year, and 30-year notes. The "curve" is the line connecting their projected future yields. This Treasury yields snapshot is authoritatively referred to as: "the yield curve."[1,2]

The yield curve normally slopes upward. (Think "rise over run.") In other words, the projected yields on the short-term Treasuries (at the left of the X-Y graph) are small compared to the projected returns on the 10-year and 30-year Treasuries.[2]

When the economy is booming, the slope of the yield curve is often steep. A thriving economy typically has significant inflation, and when investors see rising inflation, they assume the Federal Reserve will start raising interest rates. That belief leaves them cold on longer-term bonds, so the prices of those bonds begin to fall, and their yields correspondingly rise.[2]

The yield curve usually flattens when the Fed tightens. It has been flattening lately, and some economists wonder if it will invert. When the yield curve inverts, interest rates on short-term Treasuries exceed interest rates on longer-term Treasuries.[2,3]

Inverted yield curves are strongly correlated with recessions. In fact, every recession America has experienced in the last 50 years has been preceded by an inverted yield curve. Three times in the 1950s, however, an inverted yield curve failed to presage a downturn.[2,3]

Right now, the 10s-2s gap is being closely watched. This is the difference between 10-year and 2-year Treasury yields. It has been steadily declining since December 2015 (when the Fed began tightening), and it narrowed to less than 0.5% this spring.[2]

Looking back over the last half-century, the 10s-2s gap has slimmed to less than 0.5% five other times, with an inversion of the yield curve – and a recession – following each time. Those

recessions took time to arrive, though. On average, they began nearly two years after the yield curve inverted.[2]

Wall Street analysts have noticed a relationship between bear markets and recessions – the former tends to herald the latter. As some study the flattening yield curve, they not only see a recession risk, but an accompanying risk of a stock market downturn, as well.[2]

Could their fears be overblown? As MarketWatch noted, the flattening yield curve has been promoted by pension funds buying up greater quantities of zero-coupon Treasuries. The Fed, too, may have affected things due to its quantitative easing and ongoing forward guidance.[4]

Is a flatter yield curve a new normal, as former Fed chair Janet Yellen argued in 2017? She felt the latest gradual flattening was actually a product of a changing relationship between the yield curve and the business cycle. If that is correct, investors could worry a little less about the Fed's determination to maintain its pace of rate hikes. (Its latest dot-plot projects four interest rate increases in 2018.) The New York Fed recently put the chance of a 2019 recession based on the slope of the yield curve at 11%; in comparison, the chance was 40% on the eve of the Great Recession.[3,5]

If the flattening of the yield curve concerns you, you may want to take the time to consult an investment professional and work on a strategy to contend with the possibility of a recession or market downturn.

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How New Tax Laws Affect Small Businesses

A recap of the major changes impacting corporations and closely held firms.

The Tax Cuts & Jobs Act changed the tax picture for business owners. Whether your company is incorporated or held closely, you must recognize how the recent adjustments to the Internal Revenue Code can potentially affect you and your workers.

How have things changed for C corps? The top corporate tax rate has fallen. C corps now pay a flat 21% tax. For most C corps, this is a big win; for the smallest C corps, it may be a loss.[1]

If your C corp or LLC brings in $50,000 or less in 2018, you will receive no tax relief – your firm will pay a 21% corporate income tax as opposed to the 15% corporate income tax it would have in 2017. Under the old law, the corporate income tax rate was just 15% for the first $50,000 of taxable income.[1,2]

Another notable change impacting C corps involves taxation of repatriated income. Prior to 2018, American companies paid U.S. tax rates on earnings generated in foreign countries; those profits were, essentially, taxed twice. Now they are being taxed differently – there is a one-time repatriation rate of 15.5% on cash (and cash equivalents) and 8% rate on illiquid assets, and those taxes are payable over an 8-year period.[2]

By the way, the 20% corporate Alternative Minimum Tax (AMT) is no more. The tax reforms permanently abolished it.[2]

What changed for S corps, LLCs, partnerships, and sole proprietorships? They can now deduct 20% of the qualified business income they earn in a year. Cooperatives, trusts, and estates can do the same. This deduction applies through at least 2025.[2,3]

The fine print on this deduction begs consideration. If you are a lawyer, a physician, a consultant, or someone whose firm corresponds to the definition of a specified service business, then the deduction may be phased out depending on your taxable income. Currently, the phase-out begins above $157,500 for single filers and above $315,000 for joint filers. Above these two thresholds, the deduction for a business other than a specified service business is limited to half of the total wages paid or one quarter of the total wages paid plus 2.5% of the cost for that property, whichever is larger.[2]

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Salaried workers who are thinking about joining the ranks of independent contractors to exploit this deduction may find it a wash: they will have to pay for their own health insurance and absorb an employer's share of Social Security and Medicare taxes.[2]

What other major changes occurred? The business depreciation allowance has doubled and so has the Section 179 expensing limit. During 2018-22, the percentage for first-year "bonus depreciation" deductions is set at 100% with a 5-year limit and applies to both used and new equipment. The maximum Section 179 deduction allowance is now $1 million (limited to the amount of income from business activity) and the phase-out threshold begins $500,000 higher at $2.5 million. Also, a business can now carry forward net operating losses indefinitely, but they can only offset up to 80% of income.[4]

The first-year depreciation allowance for a car bought and used in a business role is now $10,000; it was $3,160. Claim first-year bonus depreciation, and the limit is $18,000. (Of course, the depreciation allowance for the vehicle is proportionate to the percentage of business use.) The TC&JA also created a new employer tax credit for paid family and medical leave in 2018-19, which can range from 12.5%-25%, depending on the amount paid during the leave.[4,5]

Some longtime business tax deductions are now absent. Manufacturers can no longer claim the Section 199 deduction for qualified domestic property activities. Business deductions for rail and bus passes, parking benefits, and commuter vehicles are gone. Deductions have also been repealed for entertainment costs linked directly to or associated with the conduct of business.[4]

Business owners should also know about the new restriction on 1031 exchanges. A like-kind exchange can now only be used for real estate, not personal property.[3]

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