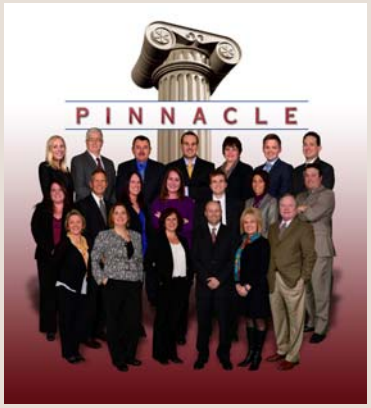

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Key Retirement and Tax Numbers for 2017

Growth, Value, or Both

How can I pay off the credit card debt I racked up over the holidays?

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Pinnacle Advisor Monthly

We help families plan for their financial future.

Medicare and Medicaid: What's the Difference?

It's easy to confuse Medicare and Medicaid, particularly since they're both government programs that pay for health care. But there are important differences between each program. Medicare is generally for older people, while Medicaid is for people with limited income and resources.

What is Medicare?

Medicare is a federal health insurance program that was enacted into law to provide reasonably priced health insurance for retired individuals, regardless of their medical condition, and for certain disabled individuals, regardless of age. It is managed by the Centers for Medicare & Medicaid Services, a division of the U.S. Department of Health and Human Services.

What is Medicaid?

Medicaid is a health insurance program that is jointly administered by state and federal governments. Medicaid serves financially needy individuals who are also elderly, disabled, blind, or parents of minor children.

Who is eligible for Medicare?

Most people become eligible for Medicare upon reaching age 65. In addition, Medicare coverage may be available for disabled individuals and people with end-stage renal disease.

Who is eligible for Medicaid?

States set their own Medicaid eligibility standards within broad federal guidelines. However, federal law requires states to cover certain groups of individuals. Low-income families, qualified pregnant women and children, and individuals receiving Supplemental Security Income (SSI) are examples of mandatory eligibility groups. In addition, a financial eligibility requirement must be met. The individual must be financially needy, which is determined by income and asset limitation tests.

What does Medicare cover?

Currently, Medicare consists of four parts: Medicare Part A, generally called "hospital insurance," helps cover services associated with inpatient care in a hospital, skilled nursing facility, or psychiatric hospital. Medicare Part B, generally called "medical insurance," helps cover other medical care such as physician services, ambulance service, lab tests, and physical therapy. Medicare Advantage (Part C) enables Medicare beneficiaries to receive health care through managed care plans such as health maintenance organizations (HMOs), preferred provider organizations (PPOs), and others. Medicare Part D helps cover the costs of prescription drugs.

What does Medicaid cover?

Each state administers its own Medicaid program within broad federal guidelines. Thus, the states determine the amount, duration, and types of benefits that Medicaid will provide. Typical Medicaid programs cover inpatient and outpatient hospital services, physician and surgical services, lab tests and X rays, family planning services, and services for pregnant women. There are also numerous optional benefits that states may choose to provide for Medicaid recipients.

What about long-term care?

Most long-term care isn't medical care, but rather help with basic personal tasks of everyday life, called custodial care. Medicare does not pay for custodial care. However, Medicare may pay for skilled care (e.g., nursing, physical therapy) provided in a Medicare-certified nursing facility for up to 100 days. In addition to skilled nursing facility services, Medicare also may pay for part-time skilled nursing care, physical therapy, medical social services, and some medical supplies such as wheelchairs and hospital beds.

The states have considerable leeway in determining benefits offered and services provided by their respective Medicaid programs. Generally, if you meet your state's eligibility requirements, Medicaid will cover nursing home services, home and community-based services, and personal care services.

Key Retirement and Tax Numbers for 2017

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 2017.

Retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $18,000 in compensation in 2017 (the same as in 2016); employees age 50 and older can defer up to an additional $6,000 in 2017 (the same as in 2016).
- Employees participating in a SIMPLE retirement plan can defer up to $12,500 in 2017 (the same as in 2016), and employees age 50 and older will be able to defer up to an additional $3,000 in 2017 (the same as in 2016).

IRAs

The limit on annual contributions to an IRA remains unchanged at $5,500 in 2017, 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:

	2016	2017
Single/head of household (HOH)	$61,000 - $71,000	$62,000 - $72,000
Married filing jointly (MFJ)	$98,000 - $118,000	$99,000 - $119,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

Note: *The 2017 phaseout range is $186,000 - $196,000 (up from $184,000 - $194,000 in 2016) 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 making contributions to a Roth IRA are:

	2016	2017
Single/HOH	$117,000 - $132,000	$118,000 - $133,000
MFJ	$184,000 - $194,000	$186,000 - $196,000
MFS	$0 - $10,000	$0 - $10,000

Estate and gift tax

- The annual gift tax exclusion remains at $14,000.
- The gift and estate tax basic exclusion amount for 2017 is $5,490,000, up from $5,450,000 in 2016.

Personal exemption

The personal exemption amount remains at $4,050. For 2017, personal exemptions begin to phase out once AGI exceeds $261,500 (single), $287,650 (HOH), $313,800 (MFJ), or $156,900 (MFS).

Note: *These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2016 threshold amounts were $259,400 (single), $285,350 (HOH), $311,300 (MFJ), and $155,650 (MFS).*

Standard deduction

These amounts have been adjusted as follows:

	2016	2017
Single	$6,300	$6,350
HOH	$9,300	$9,350
MFJ	$12,600	$12,700
MFS	$6,300	$6,350

Note: *The 2016 and 2017 additional standard deduction amount (age 65 or older, or blind) is $1,550 for single/HOH or $1,250 for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

Alternative minimum tax (AMT)

AMT amounts have been adjusted as follows:

	2016	2017
Maximum AMT exemption amount		
Single/HOH	$53,900	$54,300
MFJ	$83,800	$84,500
MFS	$41,900	$42,250
Exemption phaseout threshold		
Single/HOH	$119,700	$120,700
MFJ	$159,700	$160,900
MFS	$79,850	$80,450
26% on AMTI* up to this amount, 28% on AMTI above this amount		
MFS	$93,150	$93,900
All others	$186,300	$187,800
*Alternative minimum taxable income		

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Growth, Value, or Both

"I always say if you aren't investing for value, what are you investing for? And the idea that value and growth are two different things makes no sense.... Growth is part of the value equation."

—Warren Buffett

The terms growth and value are often used to describe two different investment strategies, yet many investors may want both qualities in an investment. Famed investor Warren Buffett put it this way in a 2015 interview: "I always say if you aren't investing for value, what are you investing for? And the idea that value and growth are two different things makes no sense.... Growth is part of the value equation."[1]

Even so, analysts may look at specific stocks as offering more growth potential than value, and vice versa. And these concepts are used to construct many mutual funds and exchange-traded funds (ETFs). So it's helpful to understand the opposing ideas, even if you want the best of both in your portfolio.

Poised to grow?

As the name suggests, growth stocks are associated with companies that appear to have above-average growth potential. These companies might be on the verge of a market breakthrough or acquisition, or they may occupy a strong position in a growing industry.

Growth companies may place more emphasis on reinvesting profits than on paying dividends (although many large growth companies do offer dividends). Investors hope to benefit from future capital appreciation of growth stocks, which tend to be considered higher risk than value stocks. However, it's equally important for growth and value stocks to have strong fundamentals.

Undervalued?

Value stocks are associated with companies that appear to be undervalued by the market or are in an industry that is currently out of favor. Unlike growth stocks, which might seem expensive and overvalued, value stocks may be priced lower in relation to their earnings, assets, or growth potential.

Established companies are more likely than younger companies to be considered value stocks, and these firms may emphasize paying dividends over reinvesting profits. An investor who purchases a value stock typically expects the broader market to eventually recognize the company's full potential, which may result in rising share prices. One risk with this approach is that a stock considered to be undervalued because of legal or management difficulties or tough competition might not be able to recover from the setback.

Focused funds

Identifying specific growth or value investments requires time, knowledge, and experience to analyze stock data. A more convenient and accessible way to add growth or value stocks to your portfolio may be through mutual funds or ETFs that focus on these categories. Such funds often have the word "growth" or "value" in their names. However, there could be a wide variety of objectives and stock holdings among funds labeled growth or value.

Also keep in mind that you might find growth, value, or both in a broad range of investments that do not employ growth or value strategies.

Diversification

Holding growth and value stocks and/or funds is one way to diversify the stock portion of your portfolio. Over the past 20 years, the average annual return for value stocks was about 1.5 percentage points higher than that of growth stocks (8.54% versus 7.02%). Yet growth stocks outperformed value stocks in eight of those years — in some years by large margins. This suggests that growth and value stocks may respond differently to varying market conditions.[2]

Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

The return and principal value of stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

[1] CNBC.com, March 2, 2015

[2] Thomson Reuters, 2016, for the period 9/30/1996 to 9/30/2016. Growth stocks are represented by the Russell 3000 Growth Index. Value stocks are represented by the Russell 3000 Value Index. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results.

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How can I pay off the credit card debt I racked up over the holidays?

It's a common occurrence once the holiday season winds down — you reluctantly look at your credit card statement and wince at all the purchases you made over the holidays. Fortunately, there's no need to panic. Consider using one of the following strategies to help pay it off.

Make a lump-sum payment. The best way to pay off credit card debt is with a single lump-sum payment, which would allow you to pay off your balance without owing additional interest. Look for sources of funds you can use for a lump-sum payoff, such as an employment bonus or other windfall. However, most individuals find themselves getting into credit card debt due to a lack of cash on hand in the first place, so this may not be an option for everyone.

Pay more than the minimum due. If it's not possible for you to pay off your balance entirely, always be sure to pay more than the required minimum payment due. Otherwise, you'll continue to carry the bulk of your balance forward without actually reducing your overall balance. You can refer to your monthly statement for more information on the impact that minimum payments will have on your credit card balance.

Prioritize your payments. If you have multiple credit cards that carry outstanding balances, another payoff strategy is to prioritize your payments and systematically pay off your credit card debt. Start by making a list of your credit cards and prioritize them according to their interest rates. Send the largest payment to the card with the highest interest rate. Continue making payments on your other cards until the card with the highest interest rate is paid off. You can then focus your repayment efforts on the card with the next highest interest rate, and so on, until they're all paid off.

Transfer your balances. Another option is to transfer your balances to a card that carries a lower interest rate. Many credit card companies offer highly competitive balance transfer offers (e.g., 0% interest for 12 to 24 months). Balance transfers may enable you to reduce interest fees and pay more against your existing balance. Keep in mind that credit cards often charge a fee for balance transfers (usually a percentage of the balance transferred).

I get so many credit card reward offers. How do I know which one to choose?

Credit card reward programs are more popular than ever. In order to keep up with such high demand in a competitive market, credit card companies are coming up with new and more enticing offers every day. How do you know which one to choose?

Are you the type of credit card user who likes to travel and/or frequent a particular hotel or airline? If so, then a travel rewards credit card might be the right option for you. Typically, a travel rewards card allows you to earn points (sometimes referred to as miles, depending on the card) for every purchase you make on the card. Typically, cards offer a reward that is equal to 1% of your purchase, which means that for every $100 you spend, you will earn 1 point or mile. Some credit card companies offer even greater incentives, such as double points for specific types of purchases or bonus points when you open up an account. Before signing up, however, be sure to read the fine print. Many travel rewards cards have specific rules that apply to point redemption and may charge a hefty annual fee.

Don't want the hassle that sometimes goes along with redeeming points on a travel rewards card? Consider a cash back rewards card. While not as thrilling as racking up points to take a trip to some far-off, exotic destination, cash back rewards cards may be better for individuals who aren't frequent travelers and who tend to use credit cards for everyday purchases. Most cash back rewards cards offer a flat cash reward on general purchases. Others offer higher rewards for different spending categories (e.g., dining or entertainment purchases). Consider your credit card spending habits to determine which cash back rewards card would be appropriate for you.

Finally, it's important to remember that rewards cards work best when you pay off your account balance each month. Be sure to charge only what you can afford to pay off and avoid spending over your budget just to earn more rewards. Otherwise, the unpaid balance you carry forward will create finance charges that may cancel out the value of any rewards you accumulate.

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