FRONTIER
INVESTMENT MANAGEMENT COMPANY®

25 YEARS

The Face of Change: Evolving Financial Planning

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Much has changed over the past 25 years in every facet of life. In 1994, Richard Nixon passed away 20 years after vacating the Presidency of the United States. In honor of Frontier's 25th anniversary, we are highlighting industry changes we have seen through the years. Forty-six percent of all private-sector workers were covered by a pension plan in 1990. Today, less than 19% of companies offer pension plans. In 1985, Social Security benefits provided retirees with 65% of their income. Today, Social Security benefits account for less than 27% of retirement income for the typical retiree. By 2050, the World Economic Forum reports there may be a $400 Trillion retirement savings gap. This gap underscores the importance of life-long collaboration with Frontier's team of CERTIFIED FINANCIAL PLANNER™ practioners.

Demographics

Frontier is prepared for changing demographics. Frontier offers FrontierNEXT® as a low-cost platform for young investors to accumulate wealth and engage in financial planning. Millennials are expected to outnumber baby boomers this year, making them the nation's largest living adult generation according to the U.S. Census Bureau. Generation Alpha (born after 2010) may be the most transformative generation ever. The Frontier Woman platform provides education, tools and support so women are confident and comfortable making major financial decisions. Women hold more than 30 percent of all global private wealth and this wealth is expected to grow by about seven percent annually over the next several years.

Technology

Technology has the ability to change employment outlook, health choices, and day-to-day living. In 1994, the Internet was mostly used only by scientists and scholars. Computers had floppy discs and required telephone lines to dial up. E-commerce launched in 1994 and Amazon was just beginning. Could artificial intelligence make doctors and lawyers obsolete? Today apps like Hapifork, Best Buy caregiver and Honor provide users access to healthcare and long-term care solutions at their fingertips. Retiree health care costs in 2018 were estimated at $14K per year or $280,000 cumulatively for a retired couple age 65 through age 85.

College Costs/Inflation

Over the long term, college tuition has had an average inflation rate of roughly 5.06% per year. For example, in 1994 college tuition of $20,000 would be equal to tuition of $68,701.30 today. To give some insight, total tuition with room and board in 1994 for a public 4-year school was about $6,670. Whereas, today it would be around $25,290.

Charitable Planning

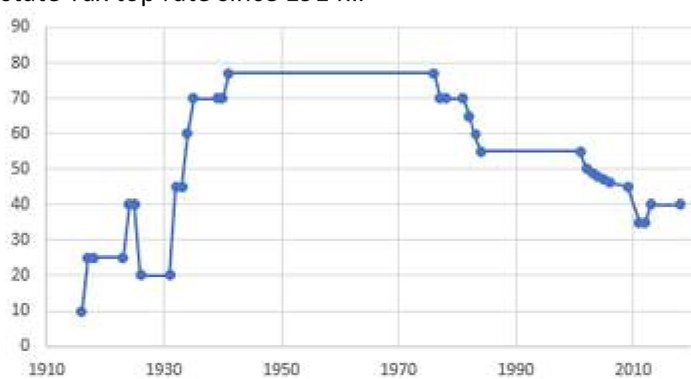
Donor Advised Funds (DAFs) were created 1930, but really began to grow in popularity in the 1990s. Now they are philanthropy's fastest growing vehicle. From 1977 to 2017, the average year-to-year change in total giving has increased by $8.94 billion. In 1995, total charitable donations were only $23.5 billion compared to $290.9 billion in 2008. In 2017, total donations to charitable organizations totaled $410 billion.

Income Tax & Estate Planning

In 1994 we still referred to our federal estate exclusion as a "unified credit" which was $600,000 per individual (and had been since 1981). The Omnibus Budget Reconciliation Act of 1993 restored the top two tax rates to 53 and 55 percent. By contrast, several iterations of income, estate and gift tax laws have been passed since then making the current estate exclusion a whopping $11.4 million per person (massive increase even by inflation standards) and lowered the top federal tax rate to 40%. Because of the drastic reduction in asset-based taxation and varying degrees of income taxation (that includes capital gains taxes split rates and the 3.8% passive income surtax as well as means testing of Medicare Parts B and D premiums), astute financial planners should help navigate clients through their AGI taxable situation in the years immediately surrounding retirement.

Given the extremes in the graph that follows, expect more changes in the decade(s) to come. With the higher estate exclusion, document preparation is now focused on the personal concerns of a family unit rather than simply estate tax savings. These factors include enhanced asset protection (parents, juveniles and elders), ease of probate settlement and IRA and annuity beneficiary decisions as well as establishing protections/restrictions on assets that extend through generations to enhance the family legacy.

Estate Tax top rate since 1914…



https://en.wikipedia.org/wiki/Estate_tax_in_the_United_States

On the income tax front, certain investments still receive favorable tax treatment. The Jobs and Growth Tax Relief Reconciliation Act of 2003 reduced the tax rate of qualified dividends from ordinary rates to long-term capital gains rates. The American Taxpayer Relief act of 2012 made the preferential tax treatment of qualified dividends a permanent element of tax law. Most recently, the Tax Cuts and Jobs Act of 2017 created a new tax benefit for owners of businesses taxed as pass through entities as well as investors in real estate, known as the 20% Qualified Business Income (QBI) deduction. See Frontier's whitepaper on this subject for further details.

- The Frontier Planning Team

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