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Finances

How the 2016 election could affect economic issues that matter to you

Adapted from the Merrill Edge Minute *e-newsletter.*

The recent presidential election has financial as well as political stakes. Here are five issues that may rise to the fore, and points investors should consider.

The 2016 presidential election—one of the most watched and talked-about in modern U.S. history—has at long last been decided. Americans continue to worry about economic issues and "a lot of people feel as though they're not benefiting from the economic recovery," says Karin Kimbrough, head of Macro and Economic Policy at Bank of America Merrill Lynch.

Adding to those concerns is the fact that markets tend to be more volatile in presidential election years in which the incumbent is not running for reelection. Since 1928, the S&P 500 index has dropped an average of 2.8% during election years in which the sitting president was not running for reelection, while rising an average of 12.6% in years when the incumbent was running.[1]

What all this adds up to is that voters are looking to the incoming president and Congress to take quick action in a number of key areas that could affect not just the economy, but individual investors. Here are five key issues that could rise to the fore, and points investors should consider.

"Lowering the corporate tax rate might help bring back some of that cash that major global U.S. companies are currently keeping overseas."

–Karin Kimbrough
Head of Macro and Economic Policy
Bank of America Merrill Lynch

Tax reform—personal

Personal taxes are an area of keen partisan disagreement, so the results of the election do not guarantee that any of the winner's proposals would actually become law. The takeaway? Stick with your regular year-end tax moves. Don't try to guess what changes could happen, since tax reform efforts are unlikely to be implemented or to take effect immediately.

Tax reform—corporate

Both candidates criticized the U.S. corporate tax rate of 35% (highest in the industrialized world) as being an obstacle to job growth, and claim that it encourages companies to relocate their headquarters to other countries or to find other loopholes to reduce taxes. "Lowering the corporate tax rate might help bring back some of that cash that major global U.S. companies are currently keeping overseas," Kimbrough says.

What could this mean to you? You might want to take a fresh look at your equity investments, since a significant reduction in taxes could be a boon to U.S.-based companies and, potentially, to the value of their stock. Additionally, cash-rich global U.S. firms with a significant portion of their earnings coming from overseas are most likely to benefit. "They may be able to deploy their earnings more effectively, which could impact their stock prices going forward," Kimbrough says. Which sectors may be affected? Such businesses operate in many different sectors, according to Kimbrough. "Any company that's got a large footprint abroad is touched by these issues."

But Kimbrough notes that in lowering the 35% tax rate, the government would also likely eliminate some of the tax exemptions many companies currently enjoy, thus muting some of the benefits those companies would receive from lower taxes.

Renewed focus on infrastructure

Ever since the financial crisis of 2008, the government has attempted to stimulate economic growth using monetary policy—mainly, the Federal Reserve's policy of keeping interest rates at record low levels and purchasing large quantities of government bonds. With the economy still growing too slowly, it could be that monetary policy is not enough. "The government has just about exhausted all of these monetary policy options," says Kimbrough. She and other experts believe that the new President and Congress will likely turn to its other major tool for stimulating growth: fiscal policy—namely, large-scale public works projects that can create jobs as they help rebuild the country's infrastructure.

While such projects usually encounter resistance from politicians concerned about the U.S. debt and deficit, Kimbrough says, there's increasing agreement that elements of America's infrastructure badly need an overhaul. A report by the American Society of Civil Engineers estimated that the country must spend $3.6 trillion by 2020 to repair decaying roads, tunnels and bridges, airports and water pipelines.[2] A spike in infrastructure spending could mean opportunities for investors in:

- Stocks of engineering and construction firms, railroads, materials and large industrial companies—all of which could experience rising demand.
- Municipal bonds, issued by state or local governments to finance projects. With "munis," interest income is generally exempt from federal income tax and, in some cases, from state and local taxes as well.

Bolstered national defense

Last year, President Obama signed off on an increase in defense spending to $607 billion for fiscal 2016.[3] That trend toward higher spending may well continue under our new President, Kimbrough says, as the country faces rising military spending by China and Russia,[4] as well as growing threats of terrorism and cyberterrorism.

"The global political landscape is evolving. There are new threats, and different types of threats, around the world. These may call for a more modern, more technologically enabled approach to defense," according to Kimbrough. A broad range of defense-related industries could benefit, creating opportunities for investors. At the same time, defense spending is always controversial, among critics who cite the U.S. debt and those who argue that the money should be spent on domestic needs. Still, "our new President will have to think about how to modernize our defenses to meet new threats," Kimbrough says.

"The global political landscape is evolving. There are new threats, and different types of threats, around the world. These may call for a more modern, more technologically enabled approach to defense."

–Karin Kimbrough

Increases in or changes to defense spending could benefit certain companies and sectors, including:

- Traditional aerospace and defense companies
- Engineering and construction firms
- Technology—especially companies that specialize in cybersecurity

Potential trade tensions

During the campaign, there was criticism of China and other countries whose trade practices some say undercut U.S. manufacturing and cost U.S. jobs. There has even been talk of enacting tariffs or other measures against those countries. “There’s a risk that you would see more trade barriers,” Kimbrough says. “It’s important to remember that this is not a one-sided game. Chances are, if we start imposing tariffs, other countries will respond with their own.”

While it’s too early to know whether relations with our trading partners would in fact suffer under the new Presidency, Kimbrough suggests that investors should keep an eye on developments around trade in the months following the election. “Surcharges and tariffs can be problematic,” she notes, and adds that they can:

- Slow down the pace of trade
- Raise costs for companies and for consumers
- Hurt companies that rely on imports or exports

“You would expect to see the stock market react negatively if it thought we were moving in the direction of trade wars,” Kimbrough says. Regardless of the outcome of the election, remember that your investments and asset allocations should always be based on your willingness to take risk, how much financial risk you can afford to take at a particular point in time, and your personal goals, Kimbrough suggests. Presidents come and go every four or eight years, but the time frame for the things you want to achieve in life is much longer than that.

The opinions and views expressed do not necessarily reflect the opinions and views of Bank of America Merrill Lynch or any of its affiliates.

[1] Source: “How Presidential Elections Affect the Markets,” Merrill Lynch Wealth Management.

[2] Source: “Rebuilding America: Ways to Invest in a Potential Infrastructure Boom,” Merrill Edge.

[3] Source: “Obama Signs Defense Bill, Finalizing Military Retirement Overhaul,” *Military Times*.

[4] Source: “2 Superpowers Were Responsible for a Big Chunk of Last Year’s Increase in Military Spending,” *Business Insider*.

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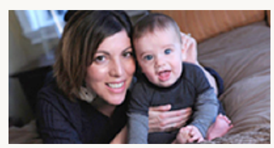
Family

Three essential financial steps for parents

By Simona Covel, adapted from the Merrill Edge Minute *e-newsletter.*

Help pursue a more secure financial future for your children—read about this mom's research and the moves she made.

When our son Colby was born, we received one monogrammed baby blanket, three hooded towels and countless words of wisdom about sleeping schedules. But no one mentioned the long-term financial implications of our happy event or how to budget for our growing family.



The author, Simona Covel and her son, Colby.

Most new parents realize that raising a child is expensive—latest government figures put the cost at more than $245,000 for the first 18 years alone.[1] But we wanted to give our son more than the necessities of food, clothing, health care and a roof over his head. We wanted to create a secure financial future for him and send him to college, and we didn't have a clue where to begin.

So I decided to do some digging and see what the experts had to say. Turns out there are three really important financial moves every new parent should consider. Devoting time to these three things during the first year of your baby's life may be a challenge—especially when you're sleep-deprived. But my husband and I are convinced that they were worth the effort. And we're sleeping better knowing that we've taken steps to help protect our family.

Create a will and appoint a guardian

My own mortality was the last thing I was thinking about after bringing a new life into the world. I'm not alone: many people put off creating a will for just that reason, says Jean Kim Wall, director, Strategic Wealth Advisory Group at Merrill Lynch, who has an infant son of her own. But a will is crucial for parents of minor children because it allows you to name the person you trust to take care of your child if both you and your spouse should die.

While it was difficult for us to imagine not being here for our son, we quickly realized how important it was to have a will and especially to name a guardian. And not just any guardian—the right guardian. Someone who would be able to give the love and support we hope to provide. Someone who shares our values and could pass them on to him. Someone who could keep our memories alive. And someone we could trust to carry out our dream of pursuing a secure financial future for Colby. Picking a guardian for our son may be the most important parenting decision we've made so far.

Almost as important as naming a guardian is naming an executor—the person who wraps up your affairs, pays bills and expenses and makes sure your property is transferred to those named in your will. A will allows you to stipulate how your assets will be managed and used to see your child through to adulthood. More specifically, you can use a will to outline exactly how and at what stage of life your children can gain access to whatever money you may leave.

The terms of your will can be quite specific: money could be allocated for math tutoring or other enrichment activities, to cover the cost of traveling to visit grandparents or even to help the guardian with additional expenses associated with raising your children. But regardless of the details, Kim Wall says, it's important to start somewhere. "It's easy to spend so much time trying to get each provision perfect that you become paralyzed," she says. It's best to get a basic version down on paper, and then revisit it every few years to address changes in circumstances.

Get your insurance in order

Next, it was time to consider life insurance. For the first time, we took a good, hard look at all that paperwork from the human resources departments where we work and saw that my husband's employer offered $500,000 in coverage, while I had a little less.

Those amounts would probably cover only a few years of lost income, says James D. Gothers, director, Merrill Lynch Personal Wealth and Retirement. So we considered what our family would require in the long term to help minimize major disruptions to our lifestyle if one or both of us died. One tip: don't underestimate the need to insure the spouse who has less income or stays at home. Child-care needs and other day-to-day rhythms change when a parent dies, straining the surviving spouse both financially and emotionally.

Also be sure to confirm that your health and disability coverage is adequate now that there's a new member of the family.

Don't postpone college planning

When I'm fastening my son's diapers, sending him off to college seems light-years away. But I can't think of a better way to help secure his future than to give him a good education. And I know we'd be foolish not to think about those costs now, given tuition's steady march skyward. Sixteen or seventeen years from now, when my son packs his bags for the college campus of his choice, we could be facing a $300,000 to $400,000 bill.[2]

"When I'm fastening my son's diapers, sending him off to college seems light-years away. But I can't think of a better way to help secure his future than to give him a good education."

–Simona Covel

"Those numbers seem so daunting and unrealistic that many parents just do nothing," says Richard J. Polimeni, director, Education Savings Programs at Bank of America Merrill Lynch. Polimeni, who has two school-age children, suggests starting with a specific goal.

His family, for example, has set out to save and invest enough to cover four years of tuition and fees at an average-priced private school for each child. Once you have your goal established, you can then figure out what you need to put away each month to help you pursue it. Polimeni adds, "Even if I can only put aside a portion, that's money I or my child won't have to borrow down the road."

So my husband and I set up a 529 college savings plan account and started making automatic monthly contributions, and we feel better now that we've taken that step.[3] My son is now a year old, and my life has a more regular rhythm than it did during those frenzied early days and nights. We're still adding new items to our financial checklist—like remembering to calculate the child-care credit come tax time. But with each planning item we address, I feel that we've done a little something more for our family. And that leaves us more mental energy to focus on our growing toddler—and all the possibilities that lie ahead for him.

The case studies presented are hypothetical and do not reflect specific strategies we may have developed for actual clients. They are for illustrative purposes only and intended to demonstrate the capabilities of Merrill Lynch and/or Bank of America. They are not intended to serve as investment advice since the availability and effectiveness of any strategy is dependent upon your individual facts and circumstances. Results will vary, and no suggestion is made about how any specific solution or strategy performed in reality.

[1] Source: United States Department of Agriculture, August 2014.

[2] Source: Campus Consultants Inc. Projections based on cost for one year for the Fall 2029–Spring 2030 school year for a 4-year private (nonprofit) college, assuming annual increases of 7%. Cost includes tuition, fees, room and board.

[3] No investment plan is risk free, and a systematic investment plan does not ensure profits or protect against losses in declining markets. A systematic investment plan involves continual investment in securities regardless of fluctuating prices. You should consider your financial ability to continue investing through periods of low price levels.

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- Interested to know more about estate planning?
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- Watch this short video to learn more about life insurance.
  Watch video > http://go.ml.com/ha8kt

- Start thinking about your college savings goals and explore strategies to help you get there.
  Merrill Edge College Planning Tool > https://www.merrilledge.com/college-savings/college-cost-calculator

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Giving

Beyond gift wrap: Creative presents for the special people in your life

‘Tis the season! Are you dreading the frantic mall runs that can drain your wallet—and holiday spirit? Maybe it’s time to stop worrying about buying all that “stuff” (a lot of which no one needs or wants) and start thinking about giving in more meaningful and creative ways.

Rather than piling on more material goods, think about giving a non-traditional gift, which has the power to deliver a memorable experience, to make a difference—and, most importantly, to create happiness. Looking for gift ideas that won’t be returned, re-gifted, or eventually become clutter? Then consider these creative “not stuff” gift ideas.

Take a financial approach

While writing a check isn't a novel idea, there are several ways you can take it a step further by giving a financial gift that ties into the recipient's personal goals:

- **Fund a first checking or savings account –** Help kids harness the power of saving and take advantage of valuable compounding time by opening a checking or savings account in their name. In many cases, you can open an account with as little as $25; though often, a parent or legal guardian must co-own the account.
- **Contribute toward a large purchase –** Have friends or relatives who are saving for a car, condo, or first home? Help them get closer to their goal by adding to the kitty. While any amount is likely to be appreciated, remember: the yearly limit on gift giving, without paying gift tax, is $14,000 per person, or $28,000 per couple.
- **Contribute to a 529 college savings plan[1] –** Help put higher education within reach by contributing to a 529 plan in a youngster's name. You can open an account for a newborn or make a contribution to an existing account for an older child. 529 college savings plans also offer benefits for the giver; the yearly gift giving limits of $14,000 and $28,000 apply. Want to contribute toward the K-12 years? A Coverdell Education Savings Account (ESA) makes it easy to save for every level of a child's education.
- **Open a Roth IRA –** Know a teenager who has been hard at work babysitting, waitressing, or mowing lawns? You can reward industrious behavior by opening a Roth IRA, which allows parents or friends to match the child's earned income, up to $5,500 per year. Roth IRA funds can be put toward any number of financial goals—whether it's a first home, educational expenses, or retirement.

- **Take a bite out of wedding costs –** These days, couples frequently opt for experiences over gifts. In lieu of purchasing from a gift registry, offer to cover a specific honeymoon or wedding-related cost—for example, flowers, lighting, or a hotel stay.
- **Give the gift of travel –** Want to help someone who is planning a "bucket list" trip to Greece, Rome, Paris, or Patagonia? Consider offsetting some of the financial burden by gifting a plane ticket, a few nights in a hotel, or money in the form of the destination's currency.

Go experiential

Not surprisingly, studies show that people derive more satisfaction and happiness from experiences versus material purchases. You can help make lasting memories with these non-material gifts:

- **Sponsor an educational experience** – Have a friend who's always wanted to take cooking lessons or learn a new language? Offer to pay for courses at a local studio, high school, or community college. Volunteer excursions are also becoming more popular. In addition to being good for the soul, they can greatly enhance a college application or resume.

- **Purchase a membership or series** – Culture vultures who enjoy the latest play, art exhibit, or concert will be thrilled to get an annual membership to a film or theater series, museum, or musical program. As members, they'll get advance notice about upcoming happenings and be invited to special events.

According to researchers Cindy Chan and Cassie Mogilner of the Wharton School at the University of Pennsylvania, people who receive experiential gifts feel more connected to the gift-giver than people who received material items.

- **Hire an expert** – Help advance a burgeoning interest in martial arts, rock climbing, or fly-fishing by purchasing lessons from a local pro. Or fuel a desire for betterment by gifting sessions with a personal trainer, nutritionist, or personal organizer.

- **Offer your time** – The best gift of all may be one without a price tag—your time. Lessen the load by offering to help with specific tasks such as babysitting, cleaning, gardening, or yard work.

Pull some heartstrings

Go beyond the "wine of the month club" and tap into the recipient's passion with these gift ideas that are sure to evoke an emotional seal of approval:

- **Make a charitable contribution** – Making a donation in honor of someone is a great way to support a cause they care about, plus it offers added perks: financial gifts to eligible charities are tax deductible and, in some cases, your employer may offer a matching contribution.

- **Sponsor an animal** – Give the gift of compassion, one that helps cover the cost of food, shelter, and care for an animal in need. Gifts can be one-time or ongoing. There are a multitude of organizations—ranging from farm sanctuaries to community shelters—who can make a dollar go a long way in helping the lives of our furry and feathered friends.

Need help finding the right charity?

Websites like charitynavigator.org and guidestar.org provide information about hundreds of thousands of nonprofits that are registered with the Internal Revenue Service.

Especially for kids

It’s hard to buy gifts for kids when you don’t know what they already own. Here are a few creative gift ideas that aren’t likely to be duplicated:

- **Get a family membership –** Every parent with young kids appreciates rainy-day options. A family membership to a zoo, museum, science center, or aquarium is sure to be put to good use.
- **Support hobbies with a key purchase –** While they can be a bit more costly, some gifts, such as musical instruments, soccer goals, or camping equipment, can pay dividends over time.
- **Document their life –** Parents are always snapping photos and videos with their phones, but then they end up drifting into the Cloud. Instead, compile them into a photo book, calendar, or personal video starring your favorite youngster.
- **Plan a whole day of activities –** Whether it’s going to a baseball game or catching a movie, and finishing the day off with dinner and soft-serve, spending the whole day together is far more valuable than any material purchase.

The next time you’re in the market for a gift idea, consider some of the options listed here. Besides not gathering dust, they have the capacity to do something much greater—spark joy, in both the giver and receiver.

[1] Before you invest in a Section 529 plan, request the plan’s official statement and read it carefully. The official statement contains more complete information, including investment objectives, charges, expenses and risks of investing in the 529 plan, which you should consider carefully before investing. You should also consider whether your home state or your beneficiary’s home state offers any state tax or other benefits that are only available for investments in such state’s 529 plan.

Learn more and take action

- If you're interested in opening a Roth IRA, get started with Merrill Edge.
  Visit Merrill Edge > https://www.merrilledge.com/retirement/roth-ira
- Learn about 529 college savings plans.
  Read more > https://www.merrilledge.com/college-savings/529
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Work

Roth or traditional 401(k): Which is right for you?

Understanding how these contribution types are taxed can help you decide between them.

If you are eligible for or currently enrolled in your company's 401(k) plan, you are probably familiar with many of the decisions associated with managing your plan account, like choosing a saving rate, selecting from the plan's investment menu and designating a beneficiary. However, your workplace retirement plan may also let you choose between making traditional and Roth 401(k) contributions. Understanding the difference between the two might help you decide which 401(k) option is better aligned with your financial situation.

More than six in 10 plans offer a Roth option, but fewer than 20 percent or so of employees with the option of saving in a Roth 401(k) use it.[1] The difference largely has to do with taxes. Once you consider how your investments will be taxed—which differs for both contributions now and distributions later on—you can decide which option is right for you.

These frequently asked questions and answers address some of the information you should consider in making your decision. However, we strongly suggest that you discuss your personal situation with a financial professional before taking any action.

Q: How are contributions treated for tax purposes?

A: Traditional contributions are made with pre-tax dollars, meaning the money comes out of your paycheck before income tax is applied. This amounts to an immediate tax break for saving for retirement, as you will defer the payment of income tax until you withdraw your pre-tax contributions and any earnings. You may also pay an additional tax if you take a withdrawal prior to age 59½.

Roth 401(k) contributions, by contrast, are funded with after-tax dollars: Income taxes are deducted from your paycheck; then your contributions are deducted. In effect, you will not be able to contribute as much, dollar-for-dollar, as with traditional 401(k) contributions if you want to keep your take home pay the same.

Q: How are withdrawals of these two contribution types taxed?

A: With a traditional 401(k), you'll pay income tax on your withdrawals. In other words, you'll eventually be taxed on any money you contribute and on any investment earnings in the plan.

On the other hand, qualified withdrawals from a Roth 401(k) are tax-free. This means you won't be taxed on any potential investment growth in the plan. (You will pay federal—and possibly state—income tax on withdrawals of company matching contributions and their earnings, however.)

Q: How can I determine which plan is right for me?

A: It really depends on your personal circumstances. Many people assume that they'll have less taxable income in retirement, and that they will be in a lower tax bracket. If that's the case for you, traditional 401(k) contributions could be a good choice: The tax break you get on your contributions today could be worth more than the savings you might gain from tax-free withdrawals from a Roth 401(k) account.

That said, it's possible that you'll be in a higher tax bracket, or that tax rates may rise between now and then. In those scenarios, making Roth 401(k) contributions may help minimize the overall federal income tax you pay on your retirement savings.

Q: Who can contribute to these plans?

A: If an employer-sponsored plan has a traditional and a Roth 401(k) contribution feature, participants would be eligible to make either type of contribution, or both. In 2016 and 2017, tax laws allow you to contribute up to $18,000 to a 401(k) plan, whether your contributions are traditional, Roth or a combination of the two, as well as an additional $6,000 in catch-up contributions if you are 50 or older and your employer's plan accepts catch-up contributions. You can contribute to both types of plans, but your combined contributions can't exceed the limit that would apply to either type of contribution separately.

Q: Are Roth 401(k) contributions eligible for an employer match?

A: Yes. If an employer offers a match on traditional 401(k) contributions, a Roth 401(k) contribution would be eligible as well. That said, you'll have to contribute a greater percentage of your paycheck if you are making Roth contributions than if you were making traditional 401(k) contributions to receive the same employer matching contribution.

The reason: The match is based on the dollar amount you contribute. Traditional 401(k) contributions come out of pre-tax income, whereas Roth contributions come out of after-tax income, which is smaller. As a result, contributing a set percentage results in larger traditional contributions than Roth contributions triggering a larger match. The following table provides a hypothetical illustration.

How big is a 6% contribution? It depends on the contribution type

Assume an employee has a pre-tax income of: $50,000

And an after-tax income of: $40,000

	Contribution at 6% rate	Company match	Total contribution
Roth 401(k)	$2,400	$1,200	$3,600
Traditional 401(k)	$3,000	$1,500	$4,500

This example is for illustrative purposes only. Assumes $50,000 pre-tax salary, $40,000 after-tax salary, and a company match of 50% of the first 6% of salary contributed.

Q: When can I take withdrawals from a Roth 401(k) account?

A: You (or your estate) can take qualified withdrawals if (i) five years have passed since the first day of the year in which you made your first Roth contribution and (ii) you have reached age 59½ or become disabled. (Your estate can take qualified withdrawals after you're deceased, as long as you reached the five-year holding period.) If you take non-qualified withdrawals, you'll have to pay regular income taxes plus a 10% additional federal tax on any earnings. (You may qualify for certain exemptions; consult your tax advisor.)

Q: Do both types of plan require minimum distributions (RMDs)?

A: Yes. With both types of 401(k) contributions, you generally must begin taking withdrawals at the age of 70½. However, you can roll a Roth 401(k) account balance into a Roth IRA, which is not subject to the RMD rules during your lifetime.[2]

Q: How do the plans address rollovers?

A: When you retire or leave your job, you can roll your traditional 401(k) account balance into a traditional IRA, your new employer's 401(k) plan (as long as it accepts rollovers) or another qualified employer-sponsored plan. You may also convert a traditional 401(k) account balance into a Roth IRA, and you would owe taxes on the transaction.

Likewise, you could roll a Roth 401(k) balance into a Roth IRA, another Roth 401(k) or a Roth 403(b) account.

Q: May loans and hardship withdrawals be taken from a Roth account balance if a plan allows them to be taken from a traditional 401(k) account balance?

A: Yes. As long as your plan allows it, both pre-tax and Roth 401(k) account balances are available for 401(k) loans and hardship withdrawals.

Selecting the right contribution type for you can help you make the most of the money you set aside. That said, choosing the right contribution type isn't nearly as important as how much you save and when you save it—so, whether you elect traditional or Roth 401(k) contributions, make sure to save as much as you can, as early as possible.

Neither Merrill Lynch nor any of its affiliates or financial advisors provides legal, tax or accounting advice. You should consult your legal and/or tax advisors before making any financial decisions.

[1] Source: *Consumer Reports*, July 2016.

[2] Upon rollover to a Roth IRA, the rolled over funds are subject to the account holder's 5-year holding period applicable to the Roth IRA.

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- Looking for more information on Roth 401(k)s?
  View brochure > http://rg.ml.com/Public/ECK/pdf/understanding_plan_features
  /ROTH_401K_PARTICIPANT_BROCHURE_FR.pdf

- If your 401(k) plan is through Merrill Lynch, use the Roth 401(k) Comparison Calculator to model different hypothetical scenarios by changing the retirement age, contribution amount and possible tax bracket. Just log on to Benefits OnLine and navigate to Advice & Planning > Tools > Roth 401(k) Comparison Calculator.
  Go to Benefits OnLine > http://www.benefits.ml.com