OAKTREE
FINANCIAL ADVISORS, INC.

Independent, Objective Advice

Investment & Retirement Rx

A newsletter for Eli Lilly employees and retirees

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Tax Cuts and Jobs Act tax reform

The new $1.5 trillion tax bill is now law. While its long-term impact on the economy is admittedly uncertain, the law achieves more than originally expected. Going far beyond the mere tax cuts that many pundits anticipated, the bill achieves meaningful tax reform.

Its passage marks a pivotal moment for the Trump administration and, arguably, the US economy in that it incentivizes capital spending and improves the competitive landscape for corporate America.

For a detailed summary of the changes please visit the following blog article on our website.

Tax Cuts and Jobs Act of 2017: What Taxpayers Need to Know
http://www.oaktreeadvisors.com/blog/150-tcja-2017.html

Is it time for a 401(k) Tune Up?

How long has it been since you last gave your 401(k) a tune up? Is your answer: too long? One of the most valuable services we have been able to provide to our clients is a personal 401(k) Tune Up. This comprehensive analysis includes specific recommendations on how to allocate your account based on your personal situation and risk tolerance. Some of the topics covered in the 401(k) Tune Up include:

- How to determine which investment options to use
- What is the self-directed brokerage account (SDBA) and is it right for me?

If you're not sure your 401(k) is set up appropriately and you'd like some professional guidance, **request our complimentary 401(k) Tune Up by visiting our website at** www.oaktreeadvisors.com**. You can also contact us by phone** at 317-818-1631 or toll-free at 877-901-1631.

Social Security sees a 2.0% COLA

Social Security benefits for more than 66 million Americans will increase 2.0 percent in 2018.

In 2018, workers and their employers will pay into the Social Security System until wages reach $128,400. There is no earnings limit on payments to the Medicare portion.

Retirees under full retirement age can earn up to $17,040 in 2018 without a reduction in Social Security benefits. Above $17,040, recipients lose $1 in benefits for every $2 of earnings. There is no reduction in benefits for retirees who have reached their full retirement age and continue working.

Lilly HSA plan changes

Late last year, Lilly announced changes to the investment menu within the Health Savings Account (HSA). Effective October 3, 2017, all funds are moving from Class A to Institutional shares. This will not be a change in the actual funds or underlying investments, but the fund ticker symbols will be different, and fees will be lower. You were automatically moved to the new investments on October 2, 2017. No action is required on your part. If you have automated investing set up on your HSA, those instructions will automatically be transferred to the new Institutional shares of the same fund(s).

In addition, as of September 25, 2017, new investments into Dreyfus Premier Strategic Value (DAGVX.LW) and Dreyfus Appreciation Fund (DGAGX) will no longer be allowed. These funds are being eliminated from the HSA, however, if you currently invest in these funds, you may continue to hold the investments or move them to a new fund at any time.

Three new index funds will be added. Vanguard Mid Cap Index (VIMAX), Vanguard Total International Stock Index (VTIAX) and Vanguard Total Bond Market Index (VBTLX).

If you have questions regarding how these changes may affect your HSA portfolio, please do not hesitate to contact us by telephone at 317-818-1631 or by e-mail at info@oaktreeadvisors.com.

HRA or an HSA?

While there will not be another open enrollment until fall, we have noticed that people may want to take a little more time in comparing their options in the health insurance plan that they choose. As an Eli Lilly employee, you can choose from two plans; a Health Reimbursement Account (HRA) or a Health Savings Account (HSA). Our experience is that many people select the HRA. But we think you should do some analysis and consider whether the HSA might be a good choice for you and your family.

For a detailed analysis of the options please visit the following blog article on our website.

http://www.oaktreeadvisors.com/blog/148-hsa-instead-of-hra.html

Eli Lilly VERP things to remember

While the decision has been made, if you have not yet met with your advisor to discuss your specific situation, or if you are not yet a client, we recommend you contact the office and schedule a time to meet.

To ensure a smooth transition for your retirement from Lilly we have listed things you will want to consider as you make this transition. Please keep in mind some of these items may not be applicable to everyone's situation.

For participants with a 2018 separation date
Prior to your separation date you will need to go to the Lilly benefits site at http://resources.hewitt.com/lilly and make your pension and health insurance elections. We also suggest considering increasing your 401(k) contribution.

Pension
- Federal and State tax withholding elections.
- Set-up direct deposit to your bank.
- If you are married, you will need to make a survivorship election (single individuals will skip this step).

Health Insurance
- Make your elections, we recommend considering the HSA.

401(k)
- Consider increasing your 401(k) contribution to contribute as much as you can in 2018. For those under age 50 this is $18,500. For those who will be 50 or older in 2018 this is $24,500. You are allowed to contribute up to 50% of your base salary to the 401(k).

For all participants

1. ***Get your e-mail and other contact information updated***
- Do you use your work e-mail for any personal communication? Make sure to change them to a personal e-mail so you don't miss any important e-mails.
- Make sure you have a personal e-mail, personal cell phone, and home phone (if applicable) in your profile on the Lilly Benefits site as these things are used to verify your identity for some requests and to reset a password if necessary.
- Please confirm with Oaktree what e-mail you would like us to use going forward for you.
- Investor360° – if you currently hold Commonwealth accounts with Oaktree Financial Advisors, you will want to confirm that your Investor360° account has your personal e-mail address and not your Lilly e-mail attached to it. You will also want to check if your paperless settings need to be updated to a personal e-mail.

2. ***Discuss with your advisor whether any automatic deposits to IRAs, Roth IRAs and non-retirement accounts need to be stopped.***
- The severance and other income may make you ineligible for a Roth IRA contribution

3. ***Discuss the rollover of your 401(k) to your IRA with your advisor.***
- If you do not already have an IRA we will establish one.
- You also may need to establish a Roth IRA if you are participating in the Roth 401(k).
- If you were 55 in the year of separation but not yet 59.5 we will discuss whether a full or partial rollover is best, as the 401(k) allows access without the 10% early withdrawal penalty. If a partial rollover makes sense, we will do a final rollover of any remaining balance once you turn 59.5.

4. ***Life insurance***
- If you will continue to have a need for life insurance that was covered by your company provided or supplemental group coverage look into purchasing an individual policy – your Oaktree advisor can help you with this if necessary.
- If you are not able to qualify for an individual policy, you have the following options within 31 days after retirement.
  - The 2x company provided coverage will terminate and be replaced by a $5,000 company provided death benefit and you can also convert up to $50,000 to an individual whole life policy without evidence of insurability.
  - The supplemental term can be converted to a group term to age 70 in $5,000 increments up to 1x your base salary or it can be converted to an individual whole life policy up to the amount of coverage at termination without evidence of insurability.

5. ***Bonus***
- Will you invest it or use it for short term cash flow needs?

6. ***VERP lump sum payment***
- Will you invest it or use if for short term cash flow needs?

7. ***Equity Awards***
- You will continue to receive awards for up to three years after retirement and the shares will be deposited into a Merrill Lynch account just as they were while working. Each year you can decide if will you want to keep the Lilly stock or sell the shares. If you want to hold the shares we recommend moving them to either a joint account or an individual transfer on death account depending on your situation.

8. ***Retirement income plan***
- Do you know where your retirement income will come from? Of course, part of it will come from your Lilly pension. For some, the pension may be enough to live comfortably in the short term. But there is no cost of living adjustment in the pension. That means that your pension will not increase even though your expenses will. Many others will need to have to make withdrawals from investments from the beginning of retirement to supplement their pension income.

  You will need to have a plan to provide for increased living expenses over your lifetime and the lifetime of your spouse if you are married.
  - What is the best way to withdraw from your investments that you've worked so hard to accumulate?
  - How do you plan withdrawals in the most tax-efficient way?
  - How will you deal with Required Minimum Distributions?
  - How do you plan so that you do not outlive your investments?

If you have any questions, please call us at 317-818-1631 or email us at info@oaktreeadvisors.com. We are ready to help.

Got a Roth 401(k)?

Qualified distributions from a Roth 401(k) may be taken tax free. A withdrawal is considered qualified when it is made after the account holder has attained age 59½ and a minimum of five years have elapsed since January 1 of the year of the first contribution to the Roth 401(k) account.

Here's the catch. After you retire or otherwise leave your employer, if you rollover your Roth 401(k) to a Roth IRA the time during which the assets were in the Roth 401(k) does not count toward the Roth IRA's five year holding period.

The five-year holding period is never carried over to an individual Roth IRA upon rollover from a Roth 401(k). The Roth 401(k) funds will be governed by the five-year rule applicable to the Roth IRA. If the Roth IRA has already satisfied the five-year period, then the funds that were rolled over from the Roth 401(k) are deemed to have also met the five-year period, even if they were in the Roth 401(k) for only a year. This is why, if you choose to participate in the Roth 401(k), you should also consider establishing a Roth IRA as soon as possible either through contributions or a conversion if ineligible to contribute due to the income limits.

Going green with e-delivery

If you would like to receive this newsletter via e-mail please

- Visit our website, www.oaktreeadvisors.com, and select Newsletter from the Resources menu and fill out the form
- Call our office at 317-818-1631
- E-mail the request to info@oaktreeadvisors.com.

Tax reporting of direct rollovers

If you made a direct rollover from your Lilly 401(k) or other qualified plan into an IRA last year, you will receive a 1099-R from the custodian of the plan. Box 7 of the 1099-R should contain the letter "G", indicating that this was a direct rollover and not taxable. But you **do need** to report this on your 2017 tax return

If you have someone that prepares your return for you, just bring them the 1099-R along with your other tax information.

If you use tax preparation software these entries will be done for you when you answer the appropriate questions.

If you prepare your own taxes but do not use a software program, the following instructions will be helpful.

- Box 1 of your 1099-R shows the amount of the direct rollover. Report this amount on your form 1040, line 16a Pension & Annuities.

Box 2a of your 1099-R is the taxable amount of the distribution and should be zero. This number should go on line 16b Taxable amount, on your form 1040.

Retirement plan limits for 2018

For 2018, the maximum contributions are as follows:

- $18,500 - applies to 401(k), 403(b), and governmental 457 plans. The limit is $24,500 for those ages 50 or older due to the $6,000 catch-up contribution.
- $12,500 - applies to SIMPLE plans. The limit is $15,500 for those age 50 or older due to the $3,000 catch-up contribution.
- $5,500 - applies to IRAs (both Roth & Traditional). The limit is $6,500 for those age 50 or older due to the $1,000 catch-up contribution.

The eligibility to contribute to a Roth IRA phases out between $189,000 - $199,000 of modified adjusted gross income for married filing joint taxpayers and $120,000 - $135,000 for single taxpayers.

CollegeChoice 529 and tax reform

On December 22, 2017, the president signed the federal tax reform bill into law. The law permits withdrawals from a 529 college savings account up to $10,000 per year per student for tuition expenses in connection with enrollment and attendance at an elementary or secondary public, private or religious school ("K-12 tuition").

Because this is a federal tax reform bill, how Indiana is going to treat this is still up in the air. House Bill 1039 was introduced on January 3, 2018 proposing some changes to the 529 tax credit and amended on January 11, 2018 to include studying expanding the 529 to cover K-12 expenditures.

Indiana taxpayers should consult their tax advisors before making a withdrawal for K-12 tuition and/or before making a contribution which they intend to ultimately withdraw for K-12 tuition. It may require action by the Indiana General Assembly to extend favorable Indiana state tax treatment to withdrawals for K-12 tuition from a CollegeChoice Savings Plan account. Additionally, if a distribution is not considered qualified for state tax purposes, it would trigger a recapture of previous state tax credits claimed under Indiana tax law.

We will provide more information as additional details become available about how Indiana plans to move forward. In the meantime, we encourage you to consult a qualified tax advisor about your personal circumstances.

Can I afford to retire?

Not sure? The IPRO can help. We can help you determine if you can maintain your lifestyle throughout retirement based on an early retirement, a full retirement, or anywhere in between. There are many factors to consider other than just your pension. Oaktree Financial Advisors has developed the Independent Professional Retirement Overview (IPRO), a customized retirement analysis that takes into account your specific Lilly benefit programs. It is designed to help employees plan for retirement before they decide to retire. It's part of our effort to make your retirement preparation and transition as smooth and successful as possible.

To request your free IPRO simply visit our website at www.oaktreeadvisors.com, click on the Eli Lilly link, then click on *I want my IPRO* and complete a request form online or call our office at 317-818-1631 or toll-free at 1-877-901-1631.

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Investment & Retirement Rx

A newsletter for Eli Lilly employees and retirees

We're excited to present this issue of the Investment & Retirement Rx newsletter. We hope you enjoy it and that you'll share it with your colleagues.

What's Inside

Inflation is as violent as a mugger, as frightening as an armed robber, and as deadly as a hit man.

Ronald Reagan

Your success in investing will depend in part on your character and guts, and in part on your ability to realize at the height of ebullience and the depth of despair alike that this too shall pass.

John Bogle

Why should I consider Oaktree Financial Advisors? When patients want the very best medical expertise, they go to a specialist, not a general practitioner. Oaktree Financial Advisors, Inc. specializes in serving the financial needs of current and former Eli Lilly employees and retirees. We are not affiliated with or endorsed by Eli Lilly. We are an independent firm serving clients who work for or have worked for Eli Lilly. Unlike most financial advisors, we are working with Lilly employees every day on financial issues that are important to them and we have counseled hundreds of current and former Lilly employees. We stay current on the financial programs and benefits available to Lilly employees and understand the specific circumstances these employees face, which enables us to be a valuable and knowledgeable advisor to those we serve.