MSM FINANCIAL STRATEGIES

CREATING CUSTOMIZED STRATEGIES FOR ACHIEVING YOUR FINANCIAL GOALS

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Life Changes and Tax Planning

Life changes can significantly impact your tax planning. Thus, it is important to review your tax-planning strategies when any of the following life changes occur:

Marriage. Before you celebrate your new tax status, carefully weigh the pros and cons of filing jointly. How you fare as a jointly filing couple depends largely on the aggregate of your combined income, as well as the discrepancy between your incomes. Generally, the larger the difference between what you and your spouse earn, the greater the tax benefits of filing jointly. Because the amount you can claim for unreimbursed medical and business expenses, along with other miscellaneous deductions, depends on your adjusted gross income, filing jointly could disqualify you from these tax savings.

Births or Adoptions. A new baby or adoptee could bring a bundle of tax-saving benefits for parents.

Divorce. If you're getting a divorce, while you'll soon lose your married tax filing status, you still have several other tax-saving options to consider. If your divorce isn't finalized until after the first of the year, you and your spouse have the option to file jointly. Once you're officially divorced, if you support a dependent and he/she lives with you at least six months of the year, you can enjoy the tax-saving benefits of filing as head of household.

Dependents Become Legal Adults. As far as the IRS is concerned, legal adult age and qualifying dependent status function independently of one another. Just because qualifying children become legal adults doesn't mean you can't still claim them as dependents. In fact, depending on your

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Encourage Estate Planning

Parenting is a never-ending job. Even when your children are grown, there will probably be lessons you'll want to teach them, such as the need for estate planning. Some items to include in that lesson are:

✔ **Explain why estate planning is important.** Your role is not to dictate what they should do with their estate, just to emphasize the need. When you children encounter major life events, such as marriage, divorce, or a child's birth, remind them to review their estate plans.

✔ **Make sure all important estate-planning documents are in place.** At a minimum, every adult should have a will, a durable power of attorney, and a healthcare proxy. A durable power of attorney designates an individual to control financial affairs if one becomes incapacitated, while a healthcare proxy delegates healthcare decisions to a third person when one is unable to make those decisions.

✔ **Coordinate estate planning across generations.** If you have a substantial estate, you may want to coordinate your estate planning efforts with those of your children. A coordinated effort can help minimize estate taxes. ❍❍❍

Life Changes

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dependent's postsecondary plans, you can claim him/her for up to six more years, providing he/she attends college full time at least five months per year, is not providing more than half of his/her support, lives with you more than half the year, and is under 24 by the end of the year. If your qualifying dependent is under 19 at the end of the year and does not attend college, you can claim the deduction, providing he/she doesn't claim a personal exemption.

Retirement. While you may be in a lower income bracket, any tax-deferred retirement account withdrawals you make are subject to tax, along with your Social Security benefits if your income exceeds certain limits. Consider gifting strategies, trusts, and annual tax planning to help reduce your taxable income and maximize your savings.

Your Parent Becomes Financially Dependent on You. If you're funding more than half of your parent's living expenses, and he/she does not have income beyond the annual exemption amount for the tax year (Social Security is generally excluded from this, though there are exceptions), you can claim your parent as a dependent. Even if he/she exceeds income limits, there are several ways to provide financial assistance while sheltering a portion of your own income from taxes, such as annual gifting and direct payment of their unreimbursed, tax-deductible medical expenses.

Death of a Spouse. You can still file a joint return for the year in which your spouse died. You can also file as a qualifying widow/widower for two years following your spouse's death, which essentially provides the same tax-saving benefits as that of married filing jointly. Regardless of your filing status, the IRS does require that the executor or a survivor file a return for the deceased, though you have until April 15 of the year following your spouse's death to do so.

Selling Your Home. The government views nearly any sort of profit you acquire as part of your income, including what you make from the sale of your home. You're exempt from taxes only if your profit doesn't exceed $250,000 ($500,000 if you're married filing jointly) and you have owned the home for at least two years, using it as your primary residence for two of the past five years.

Buying a Second Home. Purchasing a second home, whether for vacation, rental income, or a combination, is an exciting endeavor, though it can make your tax planning a bit more complicated. If you rent your home more than 14 days per year, the income must be reported on your tax return, although rental expenses are deductible providing you claim no more than the amount of your rental income. If the home is purely for your personal use, you can deduct mortgage interest just as you would with your primary residence.

Please call if you'd like to discuss these strategies in more detail. ❍❍❍

4 Reasons for Goal-Focused Investing

Here are four specific reasons why a goal-focused approach to investing is important.

Because It Puts You In Control — When you first start investing, it's easy to get overwhelmed. You may feel like you have little control over what happens to your money. But if you take a goal-focused approach to investing, you're not just watching the value of your portfolio rise and fall based on the whims of the market. You are making specific decisions designed to help you reach specific goals. If something's not working, you change the plan.

Because It Will Be Easier to Save — Saving money just to save money is no fun for most people. Having concrete goals can turn saving from an abstract concept to a concrete step to achieve a certain aim — like being able to retire one day, take a trip around the world, or send your grandchildren to college. And studies have shown that the better you are at setting goals, the more you're likely to save.

Because You'll Be Less Focused on How Others Are Doing — A little competition is healthy, but when it comes to investing, it can get risky. If your father-in-law is bragging about the great return he got on his investments, it can be tempting to drop your plan and copy his moves. But if you're investing toward a goal with a clear plan, you'll be able to congratulate your relative on his success while staying focused on your needs.

Because It Will Help You Weather the Ups and Downs of the Market — The market goes up and the market goes down. Sometimes, it goes way, way up or way, way down. Just like a roller coaster, these peaks and dips can make your stomach do flip flops, especially when your life savings are on the line. But having a goal-focused approach can help you cope with those ups and downs. If you know that you won't need your money for another 30 years, you can handle some volatility today. But if you're going to need your money in the next couple of years, you can select less volatile investments, so the day-to-day movements of the market won't stress you out. Knowing your specific goals will help you choose the right investments.

If you need help setting your own investing goals, please call. ❍❍❍

Finding a Balance between Risk and Return

One of the most basic investment principles is that returns reward you for the risks you take. While investors are often uncomfortable with the concept of risk, it is this uncertainty that makes higher rates of return possible. Some basic investment principles related to risk and return include:

✔ Returns on specific investments are not known in advance. Investors can review historical rates of return, but there is no guarantee that past returns will be indicative of future returns.

✔ There is usually the possibility that an investment will not meet your return expectations.

✔ The uncertainty regarding your actual return creates risk. Greater uncertainties typically lead to greater risk.

✔ Investments are subject to many different types of risk. Cash is primarily subject to purchasing power risk, or the risk that its purchasing power will decrease due to inflation. In addition to purchasing power risk, bonds are subject to interest rate risk, or the risk that interest rates will increase and cause the bond's value to decrease, and default risk, or the risk that the issuer will not repay the principal or interest on the bonds. Stocks are primarily subject to nonmarket risk, or the risk that events specific to a company or its industry will adversely affect a stock's price; and market risk, or the risk that a particular stock will be affected by overall stock market movements.

✔ There is generally a tradeoff between risk and return. Low levels of risk are the most desirable and typically have lower return potential, while higher levels of risk are typically undesirable and must offer higher return potential to encourage investors to invest. Be cautious of claims of high returns with low risk.

There are strategies that can be used to reduce the total risk in your investment portfolio:

✔ **Diversify your portfolio.** You should diversify among several different investment categories, including cash, bonds, and stocks, as well as within investment categories, such as owning several types of stocks. A properly diversified portfolio should contain a mix of asset types whose values have historically moved in different directions or in the same direction with different magnitudes. By owning several investments rather than just one, a downturn in any one should not have a significant impact on your total return. Of course, the opposite is also true — if you have one investment with exceptional returns, your total return will be lower than if that were your only investment.

✔ **Stay in the market through different market cycles.** Remaining in the market over the long term helps to reduce the risk of receiving a lower return than expected, especially for more volatile investments, such as stocks.

✔ **Use dollar cost averaging to invest.** Rather than accumulating cash so you have a large sum to invest, invest small amounts regularly. Dollar cost averaging involves investing a certain sum of money in set amounts at regular intervals. This spreads your purchases over a period of time, preventing you from making one major purchase at high prices. Since you are investing a set amount, you purchase more shares when prices are lower and fewer shares when prices are higher. While a valuable investment strategy, dollar cost averaging does not ensure a profit or protect against losses in declining markets. Before starting a program, consider your ability to continue purchases during periods of low price levels. This strategy requires the discipline to invest consistently, regardless of market prices, and can help develop a habit of regular investing.

If you'd like to discuss how to balance risk and return in your portfolio, please call. ❍❍❍

Tips for Your 401(k) Plan

It pays to understand your 401(k) plan. Here are a few tips to help:

Maximize contributions — As soon as you possibly can, begin making contributions to your 401(k) plan, contributing as much as your budget will allow. In 2020, you can contribute a maximum of $19,500 to your 401(k) plan, plus an additional $6,500 catch-up contribution for those over age 50, provided this is offered by your plan. Employers may set lower limits to ensure the plan complies with nondiscrimination rules.

Take advantage of employer matching contributions — If your company offers a matching contribution, strongly consider contributing enough to take advantage of the maximum amount provided.

Diversify investments — 401(k) plans typically offer numerous investment options, so review your plan's investments carefully to make sure you select ones that fit your particular goals.

Limit company stock — Since you know your company so well, you may feel you should make the company's stock a significant portion of your 401(k) plan. However, since your livelihood is already tied to that company, you don't want too much of your retirement funds to also be tied to the same company. Make sure you don't hold any more than 10% of assets in your company stock.

Review your plan annually — Go over all these other factors annually to make sure your 401(k) plan is on track. Use the annual review as a time to review the performance of your investments.

Don't touch your plan for other purposes — If you leave or lose your job prior to retirement, make sure to protect your 401(k) plan. Any loans you have taken will likely have to be repaid within a month or two of leaving your job. Otherwise, the loan will be considered a distribution and taxes and penalties may be assessed. Don't be tempted to cash out your 401(k) plan. Not only will you be reducing your retirement savings, but you may have to pay steep taxes and penalties. Instead, either leave the funds in your former employer's 401(k) plan, or roll your balance over to an individual retirement account (IRA) or to another employer's 401(k) plan.

Following these tips will help you make the most of your 401(k) plan. Please call if you'd like to discuss this topic in more detail. ❍❍❍

Should You Serve as a Guardian?

Consider the following if you are asked to serve as a guardian:

Are your lifestyles compatible? Go over all details involved in raising the children. Consider the impact on your children, including that you will probably have less time available.

How much financial support will be available? This involves more than making sure money is available for college and other expenses directly attributable to the children. Additional children in your house will increase many of your bills.

Are you comfortable taking on responsibility for the children's finances? You may feel more comfortable with another person involved with the finances.

Has a contingent guardian been named? Find out if a contingent guardian has been named in case you cannot serve. However, don't use this as an excuse to accept when you really want to decline. It is better to indicate that you do not want to take on this responsibility now, so another guardian can be chosen. Also, if your situation changes in the future, inform the parents immediately. ❍❍❍

Financial Thoughts

The average consumer reads 10 reviews before feeling able to trust a business (Source: *Journal of Financial Planning*, March 2020).

Approximately 19% of adults age 65 and older and 46% of adults under age 30 are likely to see others as untrustworthy (Source: Pew Research Center, 2020).

The number of households with people age 80 and over increased 71% from 4.4 million in 1990 to 7.5 million in 2016. That number is expected to more than double by 2037 (Source: *The Wall Street Journal*, June 3, 2019).

Approximately two-thirds of millennials have nothing saved for retirement (Source: *The Wall Street Journal*, June 3, 2019).

About 79% of millennials describe themselves as impact investors, seeking both financial and social impact returns, while 13% are interested in opportunities that align with their values, regardless of financial returns (Source: *Journal of Financial Planning*, June 2019).

Approximately 55% of people would choose to take less money today than more money in the future (Source: *Journal of Financial Planning*, August 2019). ❍❍❍