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WEALTH MANAGEMENT

January 2020

Monthly Insight
Turning the Page: Smart Financial Planning and Investment Moves for 2021

Now that 2020 is finally behind us, it is time to look ahead with fresh eyes and renewed hope. However, while the past year is one that most of us would probably like to forget as soon as possible, the past twelve months have taught us some important lessons that we should carry forward as we make prudent, timely decisions about finances, investing, planning, and other important topics in 2021. The pandemic has pulled into the spotlight the importance of careful estate planning practices and tax-efficient investment strategies. At the same time, as we prepare for a new administration in the White House, it's especially timely to reconsider tax and planning assumptions with an eye to potential future legislative and regulatory developments. Here are the moves you need to make now, at the beginning of the year, to position yourself for 2021.

Review Estate Planning Strategy and Documents. This is a perennial item in my "to-do" list for clients, especially for thriving retirees and family stewards. But this year, more than most, it's important to know where you stand in regard to the size of your estate and the federal estate exemption limits. It has been stated policy of Democrat legislators and the incoming president to reduce the current $11.58 million ($23.16 million for married couples) estate tax exemption. Many analysts believe that any sweeping tax changes are unlikely, especially early in the Biden administration, as the new president tackles the COVID-19 pandemic, Medicare, the environment, and other issues that speak more directly to the concerns of his supporters. But at some point, the bill is going to come due for all the money the federal government has been spending to stimulate the economy and prevent a pandemic-driven recession; large estates could present an easy target for federal revenue enhancement. Especially for those with estates in the $20 million range and up, it may be time to review gifting strategies, including gifts to a trust designed to administer assets after your passing. Certainly, any large-scale changes in tax policy will not happen overnight, so you will likely have ample opportunities for important discussions with your legal and tax advisors in order to prepare for changes in the landscape. And don't forget, it's always important to review your documents, including beneficiary designations for life insurance, annuities, and retirement accounts, to make sure that the individuals or entities are still those to whom you wish the proceeds to go.

Review Asset Allocations and Rebalance. Let's face it: a lot happened in the financial markets in 2020. Depending on your risk profile and long-term strategy, it is almost certain that your portfolio is "coloring outside the lines" in one area or another. In order to keep your long-term strategy intact, it's important to audit your current position in equities, fixed income, and cash to make sure your portfolio is an accurate reflection of your risk profile. A qualified, professional financial advisor can also help you take advantage of tax harvesting opportunities that may be present among your non-tax-advantaged holdings. By selectively selling assets that may have incurred a loss during the year, you can leverage those "paper losses" into tax-efficient opportunities for future gains. Now, at the beginning of the year, is the perfect time to make an appointment with your financial advisor to review your financial blueprint and make any needed changes.

Interest Rate Outlook and Implications. Many analysts believe that short-term interest rates are likely to remain low until at least 2023, though long-term rates (maturities of 10 years or more) could rise somewhat as the economy recovers from pandemic shocks. Even with very low rates on short-term instruments and cash, though, it is still worthwhile to maintain liquid reserves. It's especially important to keep an emergency fund equal to three to six months' expenses. Investors learned the importance of this last spring, when the economy was essentially shuttered, almost overnight, in an attempt to mitigate the worst effects of the worsening pandemic. Going into the new year, none of us knows what unexpected events could arise, and keeping that "rainy day fund" healthy and intact remains an important cornerstone of any sound financial plan. Short-term fixed rate and cash holdings can also provide important opportunities for taking advantage of bargains that become available, as took place last spring when stock prices temporarily plummeted, creating buying opportunities for investors with resources available to take advantage of them.

Review Retirement Planning. It is unlikely that the global pandemic will fundamentally alter most Americans' basic assumptions and intentions about retirement. However, a recent survey by Charles Schwab indicates that more than half of Baby Boomers believe they need to focus greater attention on planning for retirement. That seems especially important, since the same survey reveals a disconnect between respondents' predictions for their retirement spending (an average of $135,000 per year) and the amounts they say they've saved to fund their retirements (just under $1 million). At that level of saving and spending, the respondents can expect their retirement savings to last a bit more than ten years—not long, considering the lengthening life expectancies of most Americans. This means that it's important, both for those anticipating retirement in the next few years and even for those already in the early years of retirement, to make sure they have a plan in place that matches their expectations with their available resources. A financial advisor can work with you to adjust spending levels, budgets, investment strategy, and other financial aspects in order to help you get a handle on your retirement needs and your plan for meeting them. It could also be important to keep an eye on pending legislation as Congress considers "SECURE Act 2.0," including possible increases in the age at which required minimum distributions (RMDs) from retirement accounts must begin and also in the amounts that older workers can contribute to tax-qualified retirement plans.

There is no doubt that we are all looking forward to better things in 2021. As a fiduciary wealth advisor, I relentlessly search for opportunities to create financial strategies for investors like you. My goal is to help my clients turn hopes and dreams into reality. If you would like a professional second opinion on your portfolio or your long-term financial plan, please click here to schedule a complimentary review of your asset allocation, wealth management strategy, or other important financial planning elements.

Wishing you and your loved ones a happy and healthy New Year. "Let's have fun in '21!"

Stay Diversified, Stay YOUR Course!

KIMBERLY FOSS

President, CFP®, CPWA®, CFT-I™ Candidate

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