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Investment News

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Countdown to College

Things to consider as a parent of a future college student.

As a parent, of course you want to give your child the best opportunity for success, and for many, attending the "right" university or college is that opportunity. Unfortunately, being accepted to the college of one's choice may not be as easy as it once was. Additionally, the earlier you consider how you expect to pay for college costs, the better. Today, the average college graduate owes $37,731 in debt, while the average salary for a recent graduate is $49,785.[1]

Preparing for college means setting goals, staying focused, and tackling a few key milestones along the way — starting in the first year of high school.

Freshman Year. Before the school year begins, you and your child should have at least a handful of colleges picked out. A lot can change during high school, so remaining flexible, but focused on your shared goals, is crucial. It may be helpful to meet with your child's guidance counselor or homeroom teacher for any advice they may have. It's never a bad idea to encourage your child to choose challenging classes as they navigate high school. Many universities look for students who push themselves when it comes to learning. A balance between difficult coursework and excellent grades is the gold standard. Keeping an eye on grades should be a priority for you and your child as well.

Sophomore Year. During their sophomore year, some students may have the opportunity to take a practice SAT. Even though they won't be required to take the actual SAT for roughly a year, a practice exam is a good way to get a feel for what the test entails.

Sophomore year is also a good time to explore extracurricular activities. Colleges are looking for the well-rounded student, so encouraging your child to explore their passions now may help their application later. Summer may also be a good time for sophomores to

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get a part-time job, secure an internship, or travel abroad to help bolster their experiences.

Junior Year. Your child's junior year is all about standardized testing. Every October, third-year high-school students are able to take the Preliminary SAT (PSAT), also known as the National Merit Scholarship Qualifying Test (NMSQT). Even if they won't need to take the SAT for college, taking the PSAT/NMSQT is required for many scholarships, such as the National Merit Scholarship.[2]

Top colleges look for applicants who are future leaders. Encourage your child to take a leadership role in an extracurricular activity. This doesn't mean they have to be a drum major or captain of the football team. Leading may involve helping an organization with fundraising, marketing, or community outreach.

In the spring of their junior year, your child will want to take the SAT or ACT. An early test date may allow time for repeating test their senior year, if necessary. No matter how many times your child takes the test, most colleges will only look at the best score.

Senior Year. For many students, senior year is the most exciting time of high school. Seniors will finally begin to reap the benefits of their efforts during the last three years. Once you and your child have firmly decided on which schools apply, make sure you keep on top of deadlines. Applying early can increase your student's chance of acceptance.

Now is also the time to apply for scholarships. Consulting your child's guidance counselor can help you continue to identify scholarships within reach. Billions in free federal grant money goes unclaimed each year, simply because students fail to fill out the free application. Make sure your child has submitted their FAFSA (Free Application for Federal Student Aid) to avoid missing out on any financial assistance available.[3]

Finally, talk to your child about living away from home. Help make sure they know how to manage money wisely and pay bills on time. You may also want to talk to them about social pressures some college freshmen face for the first time when they move away from home.

For many people, college sets the stage for life. Making sure your children have options when it comes to choosing a university can help shape their future. Work with them today to make goals and develop habits that will help ensure their success.

Citations

1. The Federal Reserve, February 2020
2. The College Board, February 2020
3. StudentAid.gov, February 2020

MARKET PERFORMANCE
01/01/2021 to 02/28/2021

DJIA ^DJI Up 1.06%
S&P 500 ^GSPC Up 1.47%
NASDAQ ^IXIC Up 2.36%
Russell 2000 ^RUT Up 11.16%

* Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

Tax Efficiency in Retirement

What role should taxes play in your investment decisions?

Will you pay higher taxes in retirement? Do you have a 401(k) or a traditional IRA? If so, you will receive income from both after age 72. However, if you have saved and invested much of your life, you may also end up retiring at a higher marginal tax rate than your current one. In fact, the income alone resulting from a Required Minimum Distribution could push you into a higher tax bracket.

While retirees with lower incomes may rely on Social Security as their prime income source, they may pay comparatively less income tax than you in retirement; some, or even all, of their Social Security benefits may not be counted as taxable income.[1]

What's a pre-tax investment? Traditional IRAs and 401(k)s are examples of pre-tax investments. You can put off paying taxes on the contributions you make to these accounts until you start to take distributions. When you take distributions from these accounts, you may owe taxes on the withdrawal. Pre-tax investments are also called tax-deferred investments, as the invested assets can benefit from tax-deferred growth.[2]

Under the SECURE Act, once you reach age 72, you must begin taking required minimum distributions from a traditional IRA, 401(k), and other defined contribution plans in most circumstances. Withdrawals are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Contributions to a traditional IRA may be fully or partially deductible, depending on your adjusted gross income.

What's an after-tax investment? A Roth IRA is a classic example. When you put money into a Roth IRA, the contribution is made with after-tax dollars. As a trade-off, you may not owe taxes on the withdrawals from that Roth IRA (so long as you have had your Roth IRA at least five years and you are at least 59½ years old). With distributions from a Roth IRA, your total taxable retirement income is not as high as it would be otherwise.[2]

Should you have both a traditional IRA and a Roth IRA? It may seem redundant, but it could help you manage your tax situation. Keep in mind that tax-free and penalty-free withdrawal from a Roth IRA also can be taken under certain other circumstances, such as the owner's death.

Smart moves can help you manage your taxable income and taxable estate. If you're making a charitable gift, giving appreciated securities that you have held for at least a year is one choice to consider. In addition to a potential tax deduction for the fair market value of the asset in the year of the donation, the charity may be able to sell the stock later without triggering capital gains.[3]

Remember, however, that this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before modifying your charitable giving strategy.

The annual gift tax exclusion gives you a way to remove assets from your taxable estate. You may give up to $15,000 to as many individuals as you wish without paying federal gift tax, so long as your total gifts keep you within the lifetime estate and gift tax exemption of $11.58 million for the year 2020 and $11.7 million for 2021.[4]

Managing through the annual gift tax exclusion can involve a complex set of tax rules and regulations. Before adjusting your strategy, consider working with a professional who is familiar with the rules and regulations.

Are you striving for greater tax efficiency? In retirement, it is especially important – and worth a discussion. A few financial adjustments may help you manage your tax liabilities.

Citations
1. SSA.gov, February 22, 2021
2. IRS.gov, November 16, 2020
3. IRS.gov, March 25, 2020
4. Policygenius.com, December 21, 2020

We hope you enjoy our newsletter!
Please e-mail us any topics you would like to see covered in future newsletters.

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The New Inherited I.R.A. Rules

Do you know what has changed for I.R.A. beneficiaries?

New inherited I.R.A. rules took effect on January 1, 2020. The Setting Every Community Up for Retirement Enhancement (SECURE) Act became law on that day, altering the regulations on inherited Individual Retirement Account (I.R.A.) distributions.

The big change: the introduction of the 10-year rule for beneficiaries. Most people who inherit an I.R.A. now have to empty that I.R.A. of assets within ten years of the original owner's death. You can do this as you wish; you can withdraw the whole I.R.A. balance at once, or take incremental distributions on the way to meeting the 10-year deadline.[1]

Remember that tax rules constantly change. There is no guarantee that the tax treatment of Roth and Traditional I.R.A.s will remain what it is now. This article is for informational purposes only. If you have inherited or expect to inherit a traditional or Roth I.R.A., be sure to consult a financial professional for real-world advice.

Are there exceptions to this rule? Yes. If the deceased I.R.A. owner was your spouse, you can treat the inherited I.R.A. like an I.R.A. of your own. If it is a traditional I.R.A., you generally must take required minimum distributions (R.M.D.s) from it once you reach age 72. The I.R.S. taxes those distributions as regular income, and if you take any distributions before age 59½, they may be subject to a 10% federal income tax penalty. If it is a Roth I.R.A., you aren't required to take R.M.D.s. (You may continue to contribute to a Traditional I.R.A. past age 72 as long as you meet the earned-income requirement.)[1]

Certain non-spousal I.R.A. beneficiaries still have the chance to "stretch" inherited I.R.A. distributions over their remaining lifetimes, using Internal Revenue Service formulas (a choice available to most I.R.A. beneficiaries before 2020). You may choose this option if you are less than ten years younger than the original I.R.A. owner. You can also elect to do this if you meet the SECURE Act's definition of a "disabled" or "chronically ill" individual (you have a life-altering physical or mental impairment or require extended care).[1,2]

Lastly, if a child inherits an I.R.A., they can take distributions based on the child's life expectancy until the age of 18, at which point the aforementioned 10-year rule applies.[1]

If you are a Roth I.R.A. beneficiary, be aware of the 5-year rule pertaining to Roth I.R.A.s. If you inherit a Roth I.R.A. that is less than five years old at the time of the original owner's death, any earnings taken from it will count as taxable income. If the Roth I.R.A. is more than five years old, you can take tax-free distributions from the earnings. Assets representing the original owner's Roth I.R.A. contributions can become tax-free distributions regardless of when the original owner opened the Roth I.R.A.[1]

What's the big takeaway from all this? Suppose you are relatively young and anticipate a large I.R.A. inheritance, and that big I.R.A. is a traditional I.R.A. In that case, you can anticipate greater income taxes during the 10-year window when you take those inherited I.R.A. distributions.

By the way, the new rules do not apply to inherited I.R.A.s whose initial owners died prior to 2020. If you are a beneficiary of such an I.R.A., then you may still attempt to "stretch" the inherited I.R.A. assets according to I.R.S. life expectancy formulas and take R.M.D.s as required by the old rules.[3]

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