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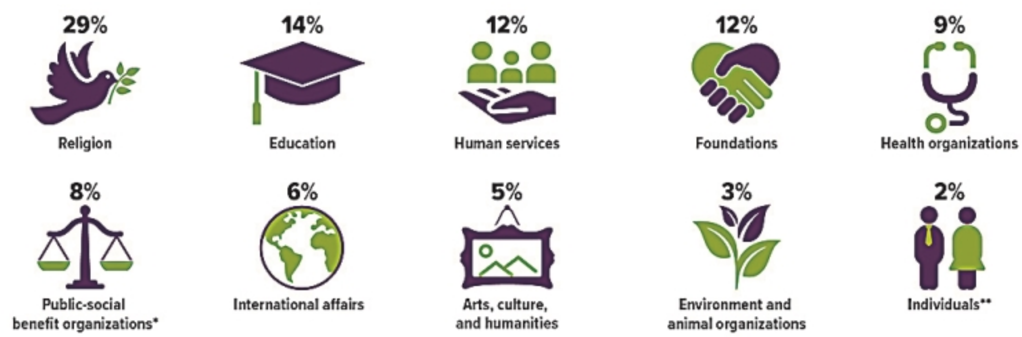
May 17th marked the official "end" of the prolonged tax season. With that behind us (at least for those of us who didn't extend), The SWA Team kindly requests that all of our advisory clients send us a copy of their 2020 Federal and state income tax returns (including all schedules). We use your returns to monitor a number of parameters such as taxable income, deductions, marginal and average income tax brackets, capital loss carry forwards, net operating losses, taxable Social Security benefits, and more. This information may be used to update financial projections and make investment and financial planning decisions. We prefer electronic copies of returns but hard copies will work as well. Please contact us with any questions.

Until June...

The SWA Team

Spreading Generosity

Americans gave almost $450 billion to charity in 2019, an increase of 4.2% over the previous year. Individuals accounted for more than two-thirds of this amount, followed by contributions from foundations, bequests, and corporations. Here is a breakdown of the recipients of this generosity, by percentage of total charitable contributions.



*Focus on issues such as civil rights, community improvement, volunteerism, and voter education
**Primarily donations of medications from pharmaceutical company foundations

Source: *Giving USA 2020*

Money Market Funds in a Low Rate Environment

After pushing interest rates gradually upward for three years, the Federal Reserve dropped the benchmark federal funds rate to near zero (0%–0.25%) in March 2020 to help mitigate the economic damage caused by COVID-19.[1] The funds rate affects many short-term interest rates, including the rates on money market mutual funds, which were already low to begin with.

The average monthly yield on 30-day taxable money market funds dropped steadily after the Fed's move and was down to 0.03% by the end of 2020, equivalent to an annual percentage rate of about 0.36%.[2] Considering the rock-bottom rates on some short-term investments, this is higher than might be expected but well below the rate of inflation.[3] Even so, investors held about $4.3 trillion in money market funds.[4]

What's the appeal with such a low return? Stability and liquidity.

Cash Alternatives

Money market funds are mutual funds that invest in cash alternatives, usually short-term debt. They seek to preserve a stable value of $1 per share and can generally be liquidated fairly easily.

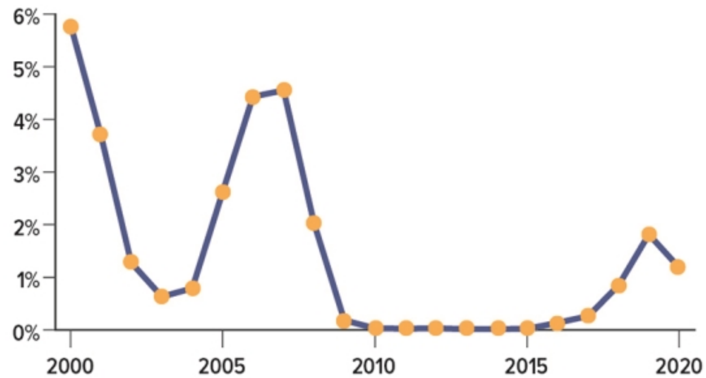
Money market funds are typically used as the "sweep account" for clearing brokerage transactions, and investors often keep cash proceeds in the fund on a temporary basis while looking for another investment. In a volatile market, it's not unusual to see large shifts into money market funds as investors pull out of riskier investments and wait for an opportunity to reinvest.

Short Term vs. Long Term

Money market funds can also be useful to keep emergency funds or other funds that might be needed quickly, such as a down payment on a home. If you are retired or near retirement, it might make sense to use money market funds for near-term expenses and/or to hold funds in a traditional IRA for required minimum distributions, so you do not have to sell more volatile assets.

For a long-term investing strategy, however, money market funds are a questionable choice. You might keep some assets in these funds to balance riskier investments, but low yields over time can expose your assets to inflation risk — the potential loss of purchasing power — along with the lost opportunity to pursue growth through other investments. This could change if interest rates rise, but the Fed projects that the federal funds rate will remain in the 0% to 0.25% range through the end of 2023.[5]

Annual Returns on Money Market Mutual Funds



Source: Refinitiv, 2021, 30-Day Money Market Index — All Taxable, for the period 12/31/1999 to 12/31/2020. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in such a fund.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1, 5) Federal Reserve, 2020

2) Refinitiv, 30-Day Money Market Index — All Taxable, for the period 12/31/2019 to 12/31/2020

3) U.S. Bureau of Labor Statistics, 2021

4) Investment Company Institute, 2021 (data as of 12/29/2020)

Home-Sweet-Home Equity

Buying a home is a long-term commitment, so it's not surprising that older Americans are much more likely than younger people to own their homes "free and clear" *(see chart).* If you have paid off your mortgage or anticipate doing so by the time you retire, congratulations! Owning your home outright can help provide financial flexibility and stability during your retirement years.

Even if you still make mortgage payments, the equity in your home is a valuable asset. And current low interest rates might give you an opportunity to pay off your home more quickly. Here are some ideas to consider.

Enjoy Lower Expenses

If you are happy with your home and don't need to tap the equity, living free of a monthly mortgage could make a big difference in stretching your retirement dollars. It's almost as if you had saved enough extra to provide a monthly income equal to your mortgage. You still have to pay property taxes and homeowners insurance, but these expenses are typically smaller than a mortgage payment.

Consider Downsizing

If you sell your home and purchase another one outright with cash to spare, the additional funds could boost your savings and provide additional income. On the other hand, if you take out a new mortgage, you may set yourself back financially. Keep in mind that condominiums, retirement communities, and other planned communities typically have monthly homeowners association dues. On the plus side, these dues generally pay for maintenance services and amenities that could make retirement more enjoyable.

Borrow on Equity

If you stay in your home and want money for a specific purpose, such as remodeling the kitchen or fixing the roof, you might take out a home-equity loan. If instead you'll need to access funds over several years, such as to pay for college or medical expenses, you may prefer a home-equity line of credit (HELOC).

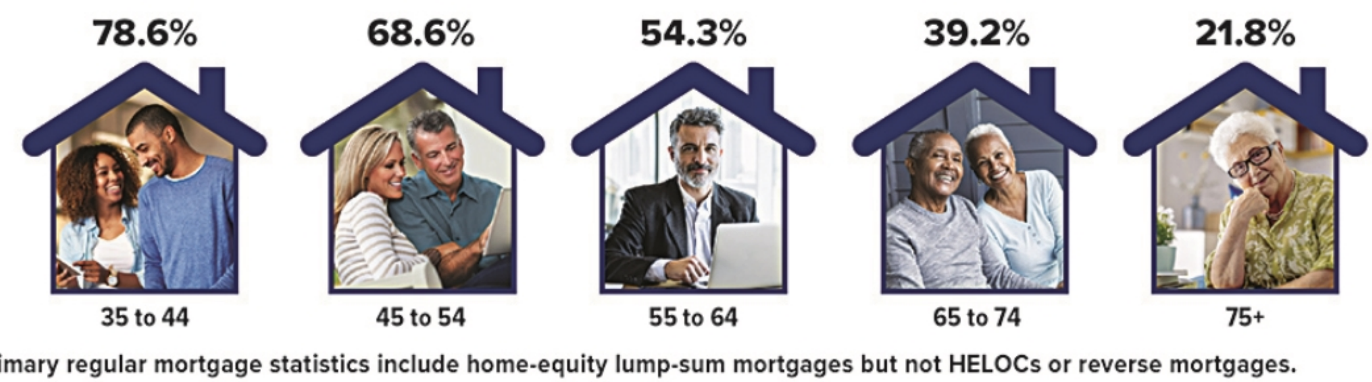
Home-equity financing typically has favorable interest rates because your home secures the loan. However, you are taking on another monthly payment, and the lender can foreclose on your home if you fail to repay the loan. In addition, you may have to pay closing costs and other fees to obtain the loan. Interest on home-equity loans and HELOCs is typically tax deductible if the proceeds are used to buy, build, or substantially improve your main home, but is not tax deductible if the proceeds are used for other expenses.

Refinance

With mortgage rates near historic lows, you might consider refinancing your home at a lower interest rate. Refinancing may allow you to take some of the equity out as part of the loan, but of course that increases the amount you borrow. While a refi loan may have a lower interest rate than a home-equity loan or HELOC, it might have higher costs that could take some time to recoup. And a new loan comes with a new amortization schedule, so even with lower rates, a larger portion of your payment may be applied to interest in the early years of the loan. Refinancing might be a wise move if the lower rate enables you to pay off a new mortgage faster than your current mortgage.

Paying Off the Mortgage

The percentage of homeowners with a primary regular mortgage declines steadily with age.



Source: 2019 American Housing Survey, U.S. Census Bureau, 2020

New Changes to College Financial Aid and Education Tax Benefits

In late December 2020, Congress passed the Consolidated Appropriations Act, 2021, another relief package in response to the pandemic. The bill included several provisions related to education, including $22.7 billion for colleges and universities. Here are some key highlights.

Simplified FAFSA. The bill accomplishes the long-held bipartisan objective of simplifying the Free Application for Federal Student Aid, or FAFSA, starting with the 2023-2024 school year. For example, the legislation significantly reduces the number of overall questions (including eliminating questions about drug convictions and Selective Service status); makes the income protection allowance more favorable for parents and students, which will allow more income to be shielded from the formula; increases the income threshold (from $50,000 to $60,000) to qualify for the simplified needs test, an expedited formula in the FAFSA that doesn't count family assets; and widens the net of students eligible for a Pell Grant.

However, the FAFSA will no longer divide a parent's assessment by the number of children in college at the same time. This change has the potential to significantly reduce the amount of financial aid offered to middle- and high-income families who have multiple children in college at the same time.

Goodbye EFC terminology. In the future, the expected family contribution (EFC) will be referred to as the student aid index, or SAI, in an attempt to more accurately reflect what this number represents: a yardstick for aid eligibility rather than a guarantee of what families will pay (families often pay more than their EFC amount).

Expanded Lifetime Learning credit. The bill increased the income limits necessary to qualify for the Lifetime Learning credit, an education tax credit worth up to $2,000 per year for courses taken throughout one's lifetime to acquire or improve job skills. Starting in 2021, a full credit will be available to single filers with a modified adjusted gross income (MAGI) below $80,000 and joint filers with a MAGI below $160,000 (the credit phases out for single filers with incomes between $80,000 and $90,000 and joint filers with incomes between $160,000 and $180,000). These are the same income limits used for the American Opportunity credit. To accommodate an expanded Lifetime Learning credit, Congress repealed the deduction for qualified college tuition and fees for 2021 and beyond.

Employer help with student loan repayment. The bill extended a provision allowing employers to pay up to $5,250 of employees' student loans on a tax-free basis for another five years. This provision, included in the Consolidated Aid, Relief, and Economic Security (CARES) Act, would have expired at the end of 2020.