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The Financial Solutions Advisor

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Economic & Market Perspectives

2020 will long be remembered for the coronavirus pandemic that sparked the sharpest and shortest recession in modern history. Yet stocks and other risk assets still managed impressive returns. We're expecting conditions to return to a more normal environment in 2021 as global economic growth improves. But we also think markets may have already discounted some of the good news, which could dampen returns.

We expect global growth to enter a stronger expansion once vac-

cines are widely available. Until that time, economic disappointments are likely.

We expect strong corporate earnings in 2021 following this year's earnings recession, but longer-term issues such as inflation and higher rates could act as a drag.

For stocks, market leadership could shift toward value, small and non-U.S. stocks, and post gains in 2021. Although with so much optimism already baked in, we caution that returns may be more limited than many expect.

Source: Nuveen

2020 Returns

<i>S&P 500</i>	18.40%
<i>NASDAQ</i>	48.88%
<i>Russell Small Cap</i>	19.96%
<i>Russell Mid Cap</i>	17.10%
<i>MSCI EAFE</i>	7.82%
<i>MSCI World</i>	15.90%
<i>Barclay US Agg. Bond</i>	7.51%
<i>Barclay Municipal Bond</i>	5.21%

Seeking Sun or Savings? Explore a Retirement Move

Many people intend to retire in the place they call home, where they have established families and friendships. But for others, the end of a career brings the freedom to choose a new lifestyle in a different part of the country — or the opportunity to preserve more wealth and protect it from taxes.

This big life decision is not all about money or the weather. Quality-of-life issues matter, too, such as proximity to family members and/or a convenient airport, access to good health care, and abundant cultural and recreational activities. In fact, choosing a retirement destination typically involves a delicate negotiation of emotional and financial issues, especially for married couples who may not share all the same goals and priorities.

If you're nearing retirement, there's a good chance you have at least thought about living somewhere warmer, less expensive, or perhaps closer to children who have built lives elsewhere. Here are some important factors to consider.

Cost of Living

A high cost of living can become a bigger concern in retirement, when you may need to stretch a

fixed income or depend solely on your savings for several decades. There's no question that your money will go further in some places than in others.

The cost of living varies among states and even within a state, and it's typically higher in large cities than in rural areas. Housing is typically the largest factor — and often varies the most from place to place — but cost of living also includes transportation, food, utilities, health care, and, of course, taxes.

Selling a home in a high-cost area might enable you to buy a nice home in a lower-cost area with cash to spare. The additional funds could boost your savings and provide additional income. Moving to a more expensive locale may require some sacrifices when it comes to your living situation, future travel plans, and other types of personal spending.

Tax Differences

Seven states have no personal income tax — Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming (Tennessee and New Hampshire tax only interest and dividend income) — and other states have different rules for taxing Social Security and pension income. Estate taxes are also more favorable in some states than in others. Property taxes and sales taxes also vary by state and even by county, so make sure to include them when calculating and comparing the total tax bite for prospective destinations.

The Tax Cuts and Jobs Act limited the annual deduction for state and local taxes to \$10,000. This change resulted in federal tax increases for some wealthier households in high-tax states, and it may also factor into your relocation decision.



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Watch Out for These Financial Pitfalls in the New Year

As people move through different stages of life, there are new financial opportunities and potential pitfalls around every corner. Here are common money mistakes to watch out for at every age.

Your 20s & 30s

Being financially illiterate. By learning as much as you can about saving, budgeting, and investing now, you could benefit from it for the rest of your life.

Not saving regularly. Save a portion of every paycheck and then spend what's left over — not the other way around. You can earmark savings for short-, medium-, and long-term goals. A variety of mobile apps can help you track your savings progress.

Living beyond your means. This is the corollary of not saving. If you can't manage to stash away some savings each month and pay for most of your expenses out-of-pocket, then you need to rein in your lifestyle. Start by cutting your discretionary expenses, and then look at ways to reduce your fixed costs.

Spending too much on housing. Think twice about buying a house or condo that will stretch your budget to the max, even if a lender says you can afford it. Consider building in space for a possible dip in household income that could result from a job change or a leave from the workforce to care for children.

Overlooking the cost of subscriptions and memberships. Keep on top of services you are paying for (e.g., online streaming,

the gym, your smartphone bill, food delivery) and assess whether they still make sense on an annual basis.

Not saving for retirement. Perhaps saving for retirement wasn't on your radar in your 20s, but you shouldn't put it off in your 30s. Start now and you still have 30 years or more to save. Wait much longer and it can be hard to catch up. Start with whatever amount you can afford and add to it as you're able.

Not protecting yourself with insurance. Consider what would happen if you were unable to work and earn a paycheck. Life insurance and disability income insurance can help protect you and your family.

Your 40s

Not keeping your job skills fresh. Your job is your lifeline to income, employee benefits, and financial security. Look for opportunities to keep your skills up-to-date and stay abreast of new workplace developments and job search technologies.

Spending to keep up with others. Avoid spending money you don't have trying to keep up with your friends, family, neighbors, or colleagues. The only financial life you need to think about is your own.

Funding college over retirement. Don't prioritize saving for college over saving for retirement. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Closer to college time, have a frank discussion with your child about college options

and look for creative ways to help reduce college costs.

Using your home equity like a bank. The goal is to pay off your mortgage by the time you retire or close to it — a milestone that will be much harder to achieve if you keep moving the goal posts.

Ignoring your health. By taking steps now to improve your fitness level, diet, and overall health, not only will you feel better today but you may reduce your health-care costs in the future.

Your 50s & 60s

Co-signing loans for adult children. Co-signing means you're 100% on the hook if your child can't pay — a less-than-ideal situation as you approach retirement.

Raiding your retirement funds before retirement. It goes without saying that dipping into your retirement funds will reduce your nest egg, a significant tradeoff for purchases that aren't true emergencies.

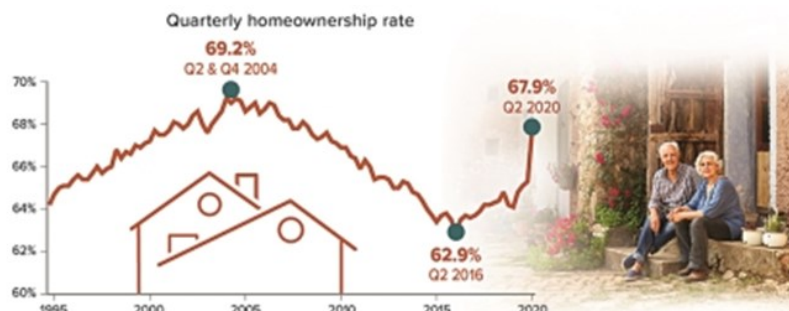
Not knowing your sources of retirement income. As you near retirement, you should know how much money you (and your partner, if applicable) can expect from three sources: your personal retirement accounts (e.g., 401(k) plans and IRAs); pension income from an employer; and Social Security at age 62, full retirement age, and age 70.

Not having a will or advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help loved ones immensely if something unexpected should happen to you.

Home Ownership Rate Spikes During Quarantine

The U.S. homeownership rate jumped by 2.6% in the second quarter of 2020, the largest quarterly increase on record, bringing it to a level last seen in 2008. Part of this unexpected increase may be due to a change in the survey process because of the coronavirus, as well as a drop in the number of rental units as renters moved in with family or took on roommates. However, many renters bought homes, spurred by low mortgage rates.

Homeownership increased across all age groups, but the biggest jump was among those under age 35, whose 40.6% rate was the highest in almost 12 years. Americans age 65 and older have the highest rate of homeownership at 80.4%.



Five Tips to Regain Your Retirement Savings Focus in 2021

In early 2020, 61% of U.S. workers surveyed said that retirement planning makes them feel stressed.¹ Investor confidence was continually tested as the year wore on, and it's likely that this percentage rose — perhaps even substantially. If you find yourself among those feeling stressed heading into the new year, these tips may help you focus and enhance your retirement savings strategy in 2021.

1. Consider increasing your savings by just 1%. If you participate in a retirement savings plan at work, try to increase your contribution rate by just 1% now, and then again whenever possible until you reach the maximum amount allowed. The accompanying chart illustrates the powerful difference contributing just 1% more each year can make over time.

2. Review your tax situation. It makes sense to review your retirement savings strategy periodically in light of your current tax situation. That's because retirement savings plans and IRAs not only help you accumulate savings for the future, they can help lower your income taxes now.

Every dollar you contribute to a traditional (non-Roth) retirement savings plan at work reduces the amount of your current taxable income. If neither you nor your spouse is covered by a work-based plan, contributions to a traditional IRA are fully deductible up to annual limits. If you, your spouse, or both of you participate in a work-based plan, your IRA contributions may still be deductible unless your income exceeds certain limits.

Note that you will have to pay taxes on contributions and earnings when you withdraw the money. In addition, withdrawals prior to age 59½ may be subject to a 10% penalty tax unless an exception applies.

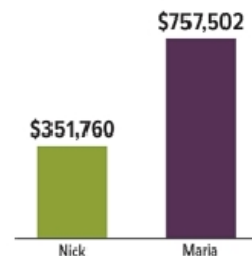
3. Rebalance, if necessary. Market turbulence throughout the past year may have caused your target asset allocation to shift toward a more aggressive or conservative profile than is appropriate for your circumstances. If your portfolio is not rebalanced automatically, now might be a good time to see if adjustments need to be made.

Typically, there are two ways to rebalance: (1) you can do so quickly by selling securities or shares in the overweighted asset class(es) and shifting the proceeds to the underweighted one(s), or (2) you can rebalance gradually by directing new investments into the underweighted class(es) until the target allocation is reached. Keep in mind that selling investments in a taxable account could result in a tax liability. Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

4. Revisit your savings goal. When you first started saving in your retirement plan or IRA, you may have estimated how much you might need to accumulate to retire comfortably. If you experienced any major life changes during the past year — for example, a change in job or marital status, an inheritance, or a new family member — you may want to take a fresh look at your overall savings goal as well as the assumptions used to generate it. As circumstances in your life change, your savings strategy will likely evolve as well.

The Power of 1%

Maria and Nick are hired at the same time at a \$50,000 annual salary. Both contribute 6% of their salaries to their retirement accounts and receive a 3% raise each year. Nick maintains the 6% rate throughout his career, while Maria increases her rate by 1% each year until she hits 15%. After 30 years, Maria would have accumulated more than double the amount that Nick has.



Assumes a 6% average annual rate of return. This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent the performance of any specific investment. It assumes a monthly contribution and monthly compounding. Fees, expenses, and taxes were not considered and would reduce the performance shown if included. Actual results will vary.

5. Understand all your plan's features. Work-based retirement savings plans can vary from employer to employer. How familiar are you with your plan's specific features? Does your employer offer a matching and/or profit-sharing contribution? Are company contributions and earnings subject to a vesting schedule (i.e., a waiting period before they become fully yours) and, if so, do you understand the parameters? Does your plan offer loans or hardship withdrawals? Under what circumstances might you access the money? Can you make Roth or after-tax contributions, which can provide a source of tax-free income in retirement? Review your plan's Summary Plan Description to ensure you take maximum advantage of all your plan has to offer.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

1) Employee Benefit Research Institute, 2020

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. *Source: Giving USA 2020*



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

Is Now a Good Time to Consider a Roth Conversion?

This year has been challenging on many fronts, but one financial opportunity may have emerged from the economic turbulence. If you've been thinking about converting your traditional IRA to a Roth, now might be an appropriate time to do so.

Conversion Basics

Roth IRAs offer tax-free income in retirement. Contributions to a Roth IRA are not tax-deductible, but qualified withdrawals, including any earnings, are free of federal income tax. Such withdrawals may also be free of any state income tax that would apply to retirement plan distributions.

Generally, a Roth distribution is considered "qualified" if it meets a five-year holding requirement and you are age 59½ or older, become permanently disabled, or die (other exceptions may apply).

Regardless of your filing status or how much you earn, you can convert assets in a traditional IRA to a Roth IRA. Though annual IRA contribution limits are relatively low (\$6,000 to all IRAs combined in 2020, or \$7,000 if you are age 50 or older), there is no limit to the amount you can convert or the number of conversions you can make during a calendar year. An inherited traditional IRA cannot be converted to a Roth, but a spouse beneficiary who treats an inherited IRA as his or her own can convert the assets.

Converted assets are subject to federal income tax in the year of conversion and may also be subject to state taxes. This could result in a substantial tax bill, depending on the value of your account, and could move you into a higher tax bracket. However, if all conditions are met, the Roth account will incur no further income tax liability and you won't be subject to required minimum distributions. (Designated beneficiaries are required to take withdrawals based on certain rules and time frames, depending on their age and relationship to the original account holder, but such withdrawals would be free of federal tax.)

Why Now?

Comparatively low income tax rates combined with the impact of the economic downturn might make this an appropriate time to consider a Roth conversion.

If your federal tax filing status is:	Your 2020 Roth contribution is reduced if your MAGI is:	You can't contribute to a Roth IRA for 2020 if your MAGI is:
Single or head of household	More than \$124,000 but less than \$139,000	\$139,000 or more
Married filing jointly or qualifying widow(er)	More than \$196,000 but less than \$206,000	\$206,000 or more
Married filing separately	More than \$0 but less than \$10,000	\$10,000 or more

Note that your contributions generally cannot exceed earned income for the year. (Special rules apply to spousal IRAs.)

The lower income tax rates passed in 2017 are scheduled to expire at year-end 2025; however, some industry observers have noted that taxes may rise even sooner due to rising deficits exacerbated by the pandemic relief measures.

Moreover, if the value of your IRA remains below its pre-pandemic value, the tax obligation on your conversion will be lower than if you had converted prior to the downturn. If your income is lower in 2020 due to the economic challenges, your tax rate could be lower as well.

Any or all of these factors may make it worth considering a Roth conversion, provided you have the funds available to cover the tax obligation.

As long as your traditional and Roth IRAs are with the same provider, you can typically transfer shares from one account to the other. When share prices are lower, as they may be in the current market environment, you could theoretically convert more shares for each dollar and would have more shares in your Roth account to pursue tax-free growth. Of course, there is also a risk that the converted assets will go down in value.

Using Conversions to Make "Annual Contributions"

Finally, if you are not eligible to contribute to a Roth IRA because your modified adjusted gross income (MAGI) is too high (see table), a Roth conversion may offer a workaround. You can make nondeductible contributions to a traditional IRA and then convert traditional IRA assets to a Roth. This is often called a "back-door" Roth IRA.

As this history-making year approaches its end, this is a good time to think about last-minute moves that might benefit your financial and tax situation. A Roth conversion could be an appropriate strategy.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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