The Financial Solutions Advisor

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Economic & Market Perspectives

Equities enjoyed their fourth consecutive positive quarter. While the pro-cyclical reopening trade continued, driven by stimulus and vaccination progress, the quarter ended with a small rebound in technology and growth.

Energy (30.9%), financials (16.0%), and industrials (11.4%) each saw double-digit returns, while consumer staples (1.2%), information technology (2.0%) and consumer discretionary (3.1%) lagged. Value trounced growth across the market cap spectrum, and small caps outperformed.

Outside of the U.S., returns were mostly positive, as the MSCI EAFE and EM indices returned 3.5% and 2.3%, respectively.

Fixed income returns were broadly negative in the first quarter. The culprits: rising long-term interest rates and fears of higher inflation, driven by accelerating COVID-19 vaccinations, robust economic growth, new fiscal stimulus and a Federal Reserve firmly committed to maintaining easy monetary policy.

The 10-year US Treasury yield rose from 0.91% to 1.74%, while the 2-year yield rose only modestly. As such, the yield curve steepened, indicating rising growth expectations.

Corporate bonds outperformed government bonds. Investment grade made negative total returns, the US dollar market particularly, as yields rose. High yield produced moderate positive returns amid healthy risk appetite and rising growth expectations.

2021 Returns

S&P 500	*6.17%*
NASDAQ	*1.76%*
Russell Small Cap	*12.70%*
Russell Mid Cap	*8.14%*
MSCI EAFE	*3.48%*
MSCI World	*4.92%*
Barclay US Agg. Bond	*-3.37%*
Barclay Municipal Bond	*-0.35%*

Source: Nuveen

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Five Tips to Follow When Applying for a Mortgage

The housing market during the coronavirus pandemic has certainly been notable. Historically low interest rates resulted in record homebuying, even as housing prices escalated.[1]

Fortunately, the mortgage industry has been able to keep up with the pace of the real estate market by utilizing already existing technology. Homebuyers can search for lenders, compare interest rates, and apply for mortgages online. Mortgage lenders are able to do alternative appraisals, perform safe home inspections, and conduct closings electronically.

Even though applying for a mortgage is much easier these days, navigating the world of mortgages — especially for first-time homebuyers — can be complicated. As a result, you'll want to keep the following tips in mind.

Check and maintain your credit. A high credit score not only may make it easier to obtain a mortgage loan but could potentially result in a lower interest rate. Be sure to review your credit report for inaccuracies. You may have to take steps to improve your credit history, such as paying your monthly bills on time and limiting credit inquiries on your credit report.

Shop around. Be sure to shop around among various lenders and compare the types of loans offered, along with the costs and rates associated with those loans. Consider each lender's customer service reputation as well.

Get pre-approved for a loan. In today's hot housing market, it's essential to have a mortgage pre-approval letter in hand before making an offer. Obtaining a mortgage pre-approval letter lets you know how large a loan you can get. However, this isn't necessarily how much you can afford. Be sure to examine your budget and lifestyle to make sure that your mortgage payment — principal and interest as well as property taxes and homeowners insurance — is within your means.

Review your down-payment options. Though lenders prefer a down payment of 20% or more, some types of home loans allow down payments as low as 3%. A larger down payment can help you obtain a lower interest rate, potentially avoid paying for private mortgage insurance, and have smaller monthly payments.

Read the fine print. Before you sign any paperwork, make sure that you fully understand the terms of your mortgage loan and the costs associated with it. For example, if you are applying for an adjustable-rate mortgage, it's important to be aware of how and when the interest rate for the loan will adjust.

1) MarketWatch, September 5, 2020

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Estate Planning Strategies in a Low Interest Rate Environment

The federal government requires the use of certain interest rates (published by the IRS) to value various items used in estate planning, such as an income, annuity, or remainder interest in a trust. The government also has interest rates that a taxpayer may be deemed to use in connection with certain installment sales or intra-family loans. These rates are currently at or near historic lows, presenting several estate planning opportunities. Low interest rates generally favor certain estate planning strategies over others and may have a detrimental effect on others.

Grantor Retained Annuity Trust (GRAT)
In a GRAT, you transfer property to a trust, but retain a right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your beneficiaries, such as family members. The value of the gift of a remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. Also, if you survive the trust term, the trust property is not included in your gross estate for estate tax purposes. If the rate of appreciation is greater than the IRS interest rate, a higher value of trust assets escapes gift and estate taxation. Consequently, the lower the IRS interest rate, the more effective this technique generally is.

Charitable Lead Annuity Trust (CLAT)
In a CLAT, you transfer property to a trust, giving a charity the right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your beneficiaries, such as family members. This trust is similar to a GRAT, except that you get a gift tax charitable deduction. Also, if the CLAT is structured so you are taxed on trust income, you receive an upfront income tax charitable deduction for the gift of the annuity interest. Generally, the lower the IRS interest rate, the more effective this technique is.

Installment Sale
You may also wish to consider an installment sale to family members. With an installment sale, you can generally defer the taxation of any gain on the property sold until the installment payments are received. However, if the family member resells the property within two years of your installment sale, any deferred gain will generally be accelerated. The two-year limit does not apply to stocks that are sold on an established securities market.

You are generally required to charge an adequate interest rate in return for the opportunity to pay in installments, or interest will be deemed to be charged for income tax and gift tax purposes. However, with the current low interest rates, your family members can pay for the property in installments, while paying only a minimal interest cost for the benefit of doing so.

Low-Interest Loan
A low-interest loan to family members might also be useful. You are generally required to charge an adequate interest rate on the loan to avoid income tax and gift tax consequences. However, with the current low interest rates, you can provide loans — or refinance an existing loan — at a very low rate and family members can effectively keep any earnings in excess of the interest they are required to pay you.

Charitable Remainder Unitrust (CRUT)
You retain a stream of payments for a number of years (or for life), after which the remainder passes to charity. You receive a current charitable deduction for the gift of the remainder interest. Interest rates have no effect if payments are made annually at the beginning of each year. Otherwise, rates generally have only a minimal effect. However, in this case, a lower interest rate increases the value of the charitable remainder interest slightly less than a higher rate would.

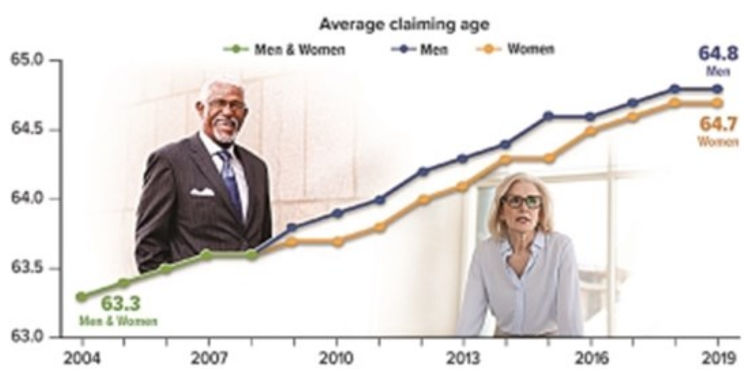
The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate professional before implementing a trust strategy.

More to Consider:
Here is how certain factors affect the valuation of remainder interest transfers in the trusts discussed here. In addition to the interest rate, you may want to consider how the length of the trust term and the amount of the trust payments affect values.

FACTOR	GRAT	CLAT	CRUT
Lower interest rate	LV	LV	Minimal or no effect
Longer term of years	LV	LV	LV (shorten term to increase value)
Higher annuity payment	LV	LV	N/A
Lower unitrust payout rate	N/A	N/A	HV

HV = higher value for remainder interest; LV = lower value for remainder interest

More People Delay Claiming Social Security



The average age for claiming Social Security retirement benefits has been steadily rising. Older Americans are working longer, in part because full retirement age is increasing incrementally from 66 to 67. A worker may begin receiving Social Security retirement benefits as early as age 62, but monthly benefits will be permanently reduced by as much as 30% if claimed before full retirement age — a strong incentive to wait.

Key Retirement and Tax Numbers for 2021

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2021.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2021 is $15,000, the same as in 2020.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2021 is $11,700,000, up from $11,580,000 in 2020.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2021, the standard deduction is:

- $12,550 (up from $12,400 in 2020) for single filers or married individuals filing separate returns
- $25,100 (up from $24,800 in 2020) for married individuals filing joint returns
- $18,800 (up from $18,650 in 2020) for heads of households

The additional standard deduction amount for the blind or aged (age 65 or older) in 2021 is:

- $1,700 (up from $1,650 in 2020) for single filers and heads of households
- $1,350 (up from $1,300 in 2020) for all other filing statuses
- Special rules apply if you can be claimed as a dependent by another taxpayer.

IRAs

as in 2020), with individuals age 50 and older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges. (The limit on nondeductible contributions to a traditional IRA is not subject to phase-out based on MAGI.)

MAGI Ranges: Contributions to a Roth IRA

	2020	2021
Single/Head of household	$124,000–$139,000	$125,000–$140,000
Married filing jointly	$196,000–$206,000	$198,000–$208,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Contributions to a Traditional IRA

	2020	2021
Single/Head of household	$65,000–$75,000	$66,000–$76,000
Married filing jointly	$104,000–$124,000	$105,000–$125,000

The 2021 phaseout range is $198,000-$208,000 (up from $196,000-$206,000 in 2020) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0-$10,000 when the individual is married filing separately and either spouse is covered by a plan.

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2021 (the same as in 2020); employees age 50 and older can defer up to an additional $6,500 in 2021 (the same as in 2020).
- Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2021 (the same as in 2020), and employees age 50 and older can defer up to an additional $3,000 in 2021 (the same as in 2020).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,200 in 2021 (the same as in 2020) is taxed using the parents' tax rates.

Making Saving for College More Manageable

	PUBLIC COLLEGE[1]				PRIVATE COLLEGE[1]			
Child's current age	Total four-year cost	Monthly investment to pay: 50%	75%	100%	Total four-year cost	Monthly investment to pay: 50%	75%	100%
Newborn	$230,069	$300	$451	$601	$526,629	$688	$1,032	$1,376
3	$198,743	$345	$517	$689	$454,922	$789	$1,183	$1,578
6	$171,681	$411	$616	$822	$392,978	$940	$1,410	$1,881
9	$148,305	$521	$781	$1,042	$339,469	$1,192	$1,789	$2,385
12	$128,111	$741	$1,112	$1,483	$293,246	$1,697	$2,546	$3,394
15	$110,667	$1,403	$2,105	$2,806	$253,317	$3,212	$4,818	$6,424

<<< Monthly Investment needed to achieve goal

College Savings goals may be more manageable when you break them down into monthly investments and start early.

ARE FOUR YEARS ENOUGH?

59%

of college students don't earn bachelor's degrees within four years.[2]

1. J.P. Morgan Asset Management. Based on average tuition, fees and room/board costs for 2020–21 school year, The College Board, Trends in College Pricing and Student Aid 2020. Costs estimated to inflate 5% per year. This hypothetical example illustrates the future values of different regular monthly investments for different time periods and assumes an annual investment return of 6%, compounded monthly. This hypothetical example does not represent the performance of any particular investment. Different assumptions will result in outcomes different from this example. Your results may be more or less than the figures shown. These figures do not reflect the impact of fees or expenses that would be paid by a 529 plan participant. Such costs would lower performance. A plan of regular investment cannot ensure a profit or protect against a loss in a declining market.

2. National Center for Education Statistics, February 2019.

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Test Your Knowledge of College Financial Aid

Financial aid is essential for many families, even more so now in light of COVID-19. How much do you know about this important piece of the college financing puzzle?

1. If my child attends a more expensive college, we'll get more aid

Not necessarily. Colleges determine your expected family contribution, or EFC, based on the income and asset information you provide on the government's financial aid form, the Free Application for Federal Student Aid (FAFSA), and, where applicable, the College Scholarship Service (CSS) Profile (a form generally used by private colleges). Your EFC stays the same no matter what college your child attends. The difference between the cost of a particular college and your EFC equals your child's financial need, sometimes referred to as "demonstrated need." The more expensive a college is, the greater your child's financial need. But a greater financial need doesn't automatically translate into a bigger financial aid package. Colleges aren't required to meet 100% of your child's financial need.

Tip: Due to their large endowments, many elite colleges offer to meet 100% of demonstrated need, and they may also replace federal student loan awards with college grants in their aid packages. But not all colleges are so generous. "Percentage of need met" is a data point you can easily research for any college. This year, though, some colleges that are facing lower revenues due to the pandemic may need to adjust their financial aid guidelines and set higher thresholds for their aid awards.

2. I lost my job after submitting aid forms, but there's nothing I can do now

Not true. Generally, if your financial circumstances change significantly after you file the FAFSA (or the CSS Profile) and you can support this change with documentation, you can ask the financial aid counselor at your child's school to revisit your aid package; the financial aid office has the authority to make adjustments if there have been material changes to your family's income or assets.

Amid the pandemic, annual income projections for some families may now look very different than they did two years ago based on "prior-prior year" income (see graphic). Families who have lost jobs or received cuts in income may qualify for more aid than the FAFSA first calculated.

Tip: Parents should first check the school's financial aid website for instructions on how to proceed. An initial email is usually appropriate to create a record of correspondence, followed by documentation and likely additional communication. Keep in mind that financial aid offices are likely to be inundated with such requests this year, so inquire early and be proactive to help ensure that your request doesn't get lost in the shuffle.

3. My child won't qualify for aid because we make too much money

Not necessarily. While it's true that parent income is the main factor in determining aid eligibility, it's not the only factor. The number of children you'll have in college at the same time is a significant factor; for example, having two children in college will cut your EFC in half. Your assets, overall family size, and age of the older parent also factor into the equation.

Tip: Even if you think your child won't qualify for aid, there are still two reasons to consider submitting the FAFSA. First, all students, regardless of family income, who attend school at least half-time are eligible for unsubsidized federal Direct Loans, and the FAFSA is a prerequisite for these loans. ("Unsubsidized" means the student pays the interest that accrues during college, the grace period, and any loan deferment periods.) So if you want your child to have some "skin in the game" by taking on a small student loan, you'll need to submit the FAFSA. Second, the FAFSA is *always* a prerequisite for college need-based aid and is *sometimes* a prerequisite for college merit-based aid, so it's usually a good idea to submit this form to maximize your child's eligibility for both.

4. We own our home, so my child won't qualify

It depends on the source of aid. The FAFSA does not take home equity into account when determining a family's expected family contribution, so owning your home won't affect your child's eligibility for aid. The FAFSA also excludes the value of retirement accounts, cash-value life insurance, and annuities.

Prior-Prior Year for Income

The FAFSA relies on current asset information (as of the date you fill out the form) and income information based on your tax return from two years prior, referred to as the "prior-prior year." For example, the 2021-2022 FAFSA relies on information from your 2019 tax return.