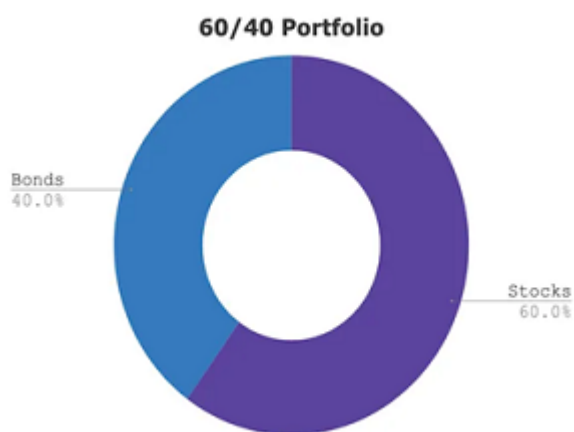


# Your Portfolio Health: Wait. What? The Fixed Income Holdings in my Portfolio are Losing Value?

By Sarah Ruef-Lindquist

Originally Submitted to the Pen Bay Pilot Wave

Many investors have a chunk of their portfolio in a fixed income allocation; that could include domestic and international corporate bonds of varying grades of credit quality and domestic municipal or government issued bonds. Very often “balanced” allocation strategy will anticipate a lower level of volatility and a lower growth in value potential through bonds, while anticipating the yield bonds generate providing income to investors that may be higher than many dividend-producing stock.



An often-used allocation strategy is 60/40: 60% stock, 40% fixed income. Extolling the virtues of this approach [on their website](#), Vanguard reminds us:

*Portfolio outcomes are primarily determined by investors'*

*strategic asset allocations. And this is good news because, with proper planning, investors with balanced portfolios should be well-positioned to stay on course to meet their goals, instead of swerving to avoid bumps in the road.*

Since the Great Recession, in a low interest-rate environment, yields on US bonds have been more modest, reducing the amount of income investors can expect from them. However, they have tended to provide a cushion in overall value dips, because of their lower level of volatility in comparison to the holdings within the stock allocation.

But now rates are rising; the Federal Reserve is working to reduce the growth of inflation by making money more expensive to borrow than it has been in over a decade, curbing borrowing, and that's pushing rates higher.

Higher rates are great for new bonds and their investors...but it can depress the relative value of existing bonds with lower rates. In the current market downturn in the first quarter of 2022, what investors are seeing is not only a dip in the value of their stock portfolios after reaching historic high values, but a decline in the value of their bond portfolios as well. That's painful. Many are scratching their heads.

Two things to remember about bonds: their relative value may be lower, but they still have their yield, or income. Secondly, when a bond matures, it almost always pays the investor back the original value of the bond, even though it's value on paper has reflected a lower "market value" during the period of rising rates. The more patience an investor can exercise over their bond portfolio in these times, the greater the reward.

As you monitor the health of your investment portfolio with your financial and investment advisor, be sure your allocation strategy fits your own unique goals and risk tolerance.

[Image source.](#)

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# Will 2021 Turn Out to be Another Record-Breaking Year for Philanthropy in the U.S.? What About 2022?

By [Sarah Ruef-Lindquist, JD, CTFA](#)

We still have a few months to wait before GivingUSA releases its report on charitable giving for 2021. That usually happens in mid-June. Anecdotally, many organizations are reporting that despite the significant continuing challenges of the pandemic for their operations and fundraising efforts, 2021 was actually a great year.

After record-breaking 2020 charitable giving statistics were reported in 2021, [Fidelity reported as of last fall](#) what they were learning and expected about giving trends in 2021. They reported 9 out of 10 surveyed in the summer of 2021 indicated they planned to give as much or more than they had given to charity in 2020.

The report is based on a study conducted in July and August 2021 by Artemis Strategy Group, an independent research firm, on behalf of Fidelity Charitable. The study examined the effect of COVID-19 on giving behavior among 701 adults in the U.S. who donated at least \$1,000 to charity in 2020.

You may recall, GivingUSA had reported a record **\$471 billion** in 2020, representing a more than 5% increase over 2019 giving.

In November 2021, [AFPGlobal.org reported](#) that giving was on pace in the first half of 2021 compared to the same period in 2020. Through the work of the Fundraising Effectiveness Project, the report includes an increase in new donors as well as an increase in total gifts. “The estimated number of donors increased by 0.7% in the first half of 2021 compared to the same period in 2020, while the total amount of money given has risen by a projected 1.7%.”

**A growth trend in giving would seem to be continuing in 2022.**

[In an article dated February 15, 2022, the Chronicle of Philanthropy reported](#) a 9% increase in giving for 2022 over 2021. This would represent the largest increase in giving since 2012. The report was produced by Blackbaud Institute, a division of Blackbaud, and surveyed roughly 9000 charitable organizations.

Did your organization have a good fundraising year in 2021? We hope so. And we hope 2022 is full of success, too. And to the extent you are having success raising funds for the long-term, through current gifts to endowment or deferred giving, we'd like to know and offer our services tailored to non-profits to support your board's fiduciary role stewarding those gifts. [Learn more at AllenIF.com.](#)

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# Tax-Smart Planning Strategies

Minimizing your annual income taxes requires a regular review of your overall financial position. With tax season underway, now is the perfect time to evaluate some effective strategies that could help reduce your current and future taxes. Tax planning should be a year-round activity, so it's wise to revisit these topics regularly in the context of your current financial situation.

## Manage Your Retirement Savings Accounts

If you have the means, maximizing your annual contribution to a retirement account will give your savings strategy a healthy boost. But it's important to understand how the different types of available retirement accounts differ. The most common options include:

**Employer-sponsored retirement plans.** Employer-sponsored 401(k) plans allow your investments to grow with taxes deferred until you take money out through a withdrawal or distribution. Some employers offer both a traditional 401(k) plan and a Roth 401(k); if yours does, you should be aware of the different rules for taxes on contributions and distributions:

- With a **traditional 401(k) plan**, contributions are made with pretax dollars, thus reducing your current income and, possibly, your current-year taxes. Choosing this option may make sense if you want to reduce your income in the current year and/or expect to be in a lower tax bracket in retirement. Required minimum distributions from the account begin at age 72.
- With a **Roth 401(k) plan**, contributions are made with after-tax dollars, and the account's accumulated funds have the potential to be distributed tax-free and penalty-

free in retirement, if certain IRS requirements are met. This could make sense if you're not looking for a current-year tax deduction and anticipate being in a higher tax bracket in retirement. Under circumstances known as "triggering events" (one example is termination of employment), Roth 401(k) funds could be rolled tax-free into a Roth IRA and eliminate the need to take required minimum distributions from those assets. Required minimum distributions begin at age 72 in Roth 401(k) accounts but are not required in Roth IRAs.

**Retirement plans for the self-employed.** If you run your own business, you can use an individual 401(k), SEP (Simplified Employee Pension), or SIMPLE (Savings Incentive Match Plan for Employees) plan to shelter income.

**IRAs.** If you qualify, you may also be able to make a contribution to an IRA. As of 2020, there is no age limit on making regular contributions to traditional or Roth IRAs. Different rules for taxes on contributions and distributions do apply:

- With a **traditional IRA**, contributions are generally made with pretax dollars, thus reducing your current income and, possibly, your current-year taxes. Eligibility for making tax deductible contributions to an IRA depends on your tax filing status, modified adjusted gross income (MAGI), and whether you're covered by an employer-sponsored retirement plan. Required minimum distributions begin at age 72.
- With a **Roth IRA**, contributions are made with after-tax dollars, and the account's accumulated funds have the potential for tax-free and penalty-free distribution in retirement. Eligibility for contributing to a Roth IRA is based on your tax filing status and MAGI. There is no

requirement for minimum distributions when you reach a certain age.

- **Converting traditional IRA assets to a Roth IRA** is another strategy to consider. Generally, this move makes the most sense for those who anticipate being in a higher tax bracket in retirement than they are now. Eliminating the need to take required minimum distributions is a meaningful benefit.

## **Maximize Your Deductions**

Some deductible items, such as medical expenses and charitable contributions, must meet a specific threshold before deductions can be taken. If you fall short of the minimum in a particular year, you might be able to time future discretionary expenses or charitable contributions such that you exceed the threshold one year but not the next.

## **Review Form 1040**

Examining your 1040 could help you spot opportunities for making investments that provide greater after-tax savings. Pay special attention to the Taxable Interest, Tax-Exempt Income, and Dividend Income sections of [the form](#).

## **Consider Tax-Advantaged Municipal Bonds**

Municipal bonds are an excellent tax-advantaged investment, especially for people who are in a high income tax bracket or have moved into a higher tax bracket after a promotion or career change. Interest earned on municipal bonds is exempt from federal income taxes and, in most states, from state and local taxes for residents of the issuing states (although income on certain bonds for particular investors is often subject to the Alternative Minimum Tax).

## **Plan for Capital Gains and Losses**

To determine when to recognize capital gains or losses, you will have to know whether you want to postpone tax liability (by postponing recognition of gains) or to recognize capital gains or losses during the current year. If the gains will be subject to a higher rate of tax next year (because of a change in tax bracket), or if you cannot use capital losses to offset capital gains, you could recognize capital gains this year.

### **Don't Forget Life Insurance**

Life insurance can provide liquidity to pay estate taxes and could be an attractive solution to other liquidity problems, such as those family-owned businesses, large real estate holdings, and collectibles may face. Structured properly, life insurance proceeds can pass free of income and estate taxes.

### **Putting the Pieces Together**

These are just a few of the most common tax planning strategies. We can work with you and your tax professional to assess your current situation and determine which options could be beneficial to you. Making proactive, tax-smart decisions throughout the year is an essential piece of overall financial planning.

*This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer. Third party links are provided to you as a courtesy and are for informational purposes only. We make no representation as to the completeness or accuracy of information provided at these websites.*

*Municipal bonds are federally tax-free but may be subject to*



*state and local taxes, and interest income may be subject to federal alternative minimum tax (AMT). Bonds are subject to availability and market conditions; some have call features that may affect income. Bond prices and yields are inversely related: when the price goes up, the yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity.*

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## **2022 Estate and Gift Tax: Looking Back, and an Update**

There were many who predicted significant changes to the current federal estate and gift tax law in the past year, but nothing has materialized as of this writing. Many predicted that the amount that would be subject to tax would be greater due to a lowering of the exemption amount, and that the rates would be higher. It just didn't happen. Indeed, the exemption is going up.

According to the IRS website and Kiplinger, the federal estate tax exemption is going up for 2022. The amount is adjusted each year for inflation. It's important to remember that the current law will sunset at the end of 2025, at which point the amounts and rates will revert to those in effect in 2016, which are significantly lower, meaning more estates will be taxable.

### **2022 Federal Estate Tax Exemption**

Generally, when you die, your estate is not subject to the federal estate tax if the value of your estate is less than the exemption amount. For people who pass away in 2022, the exemption amount will be \$12.06 million (\$11.7 million for 2021). For a married couple, that comes to a combined exemption of \$24.12 million.

This is also known as the Basic Exclusion amount. It is as high as it's ever been. The annual exclusion for gifts was \$11,000 (2004-2005), \$12,000 (2006-2008), \$13,000 (2009-2012) and \$14,000 (2013-2017). In 2018, 2019, 2020, and 2021, the annual exclusion is \$15,000. Again, in 2022, the annual exclusion is \$16,000.

### **Federal Estate Tax Rate**

Only a small percentage of Americans die with an estate worth \$12 million or more. But for estates that do, the federal tax bill is significant. Most of the estate's value is taxed at a 40% rate.

According to Kiplinger, the first \$1 million in an estate is taxed at lower rates – from 18% to 39%. That results in a total tax of \$345,800 on the first \$1 million, which is \$54,200 less than what the tax would be if the entire estate were taxed at the top rate. Once the estate's value exceeds \$1 million, the excess is taxed at the 40% rate.

**That's the picture from a federal perspective. What about Maine?** Yes, Maine has an estate tax, with an exemption level of \$5.87 million. The Estate tax rates range from 8% – 12%, which is one of the lowest rates among the states that have an estate tax. There is no tax on heirs, so no Inheritance tax.[\[1\]](#)

### **Federal Gift Tax**

Gifts can be taxable if they are big enough. First, there's the exclusion of what you don't need to report each year. This would apply to gifts to any one individual in the calendar year by a taxpayer. You could double the amount for gifts from a married couple filing jointly. The current exclusion is \$16,000. It has increased over the years. Those gifts that exceed the exclusion Amount are reported and cumulatively are not taxable as gifts until they exceed a total of the exemption amount during your lifetime, currently over \$12 million.

By the time 2026 rolls around, we will likely hear much more about estate and gift taxes. The current law is slated to sunset December 31, 2025 and go back to 2016 levels January 1, 2026.

All taxpayers should consult with their own professional tax and legal advisors when making estate and significant gifting plans to take their unique facts and circumstances into account.

[1]

<https://www.kiplinger.com/retirement/inheritance/601551/states-with-scary-death-tax>

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# Fixed Income Investment Strategies: 4 Ways to Mitigate Inflation Risk

Fixed income investments (also known as bond investments) play an important role in a well-diversified portfolio, potentially serving as downside protection in times of uncertainty. Still, as of this writing in January 2022, some fixed income investors are understandably cautious about the risk of rising consumer prices on their portfolios. The primary concern is the potential for interest rates to increase.

Rising interest rates put pressure on fixed income investments by causing prices for existing bonds to fall. This is known as interest rate risk. Although there is no way to completely avoid the impact of higher inflation on fixed income, the risk can be mitigated. Let's review four strategies that could help manage fixed income portfolio risk.

## 1) Reduce Interest Rate Risk

Why is interest rate risk a primary concern for many bond investors? After all, a bond's original terms do not change within the interest rate environment. If you hold a bond to maturity, you're entitled to receive the full principal amount, plus any outstanding accrued interest.

If you want to sell a bond before maturity, however, the situation is different. Prior to maturity, most existing bonds sell at a premium or a discount to the full principal amount, plus accrued interest. If interest rates have risen since a bond was issued, the price of the bond typically declines.

So, what strategies can we employ to potentially reduce the interest rate risk of a bond portfolio? Adjusting the duration of your bond portfolio is one of the first methods to consider. Duration is a measure of the sensitivity of the price of a bond to a change in interest rates. Notably, duration is *not* the same thing as a bond's term to maturity.

For instance, a bond with a duration of 5 would be expected to see its price fall 5 percent if interest rates were to rise by 1 percent. In comparison, a bond with a duration of 2 would be expected to see a 2 percent decline if interest rates were to rise by 1 percent.

To guard against a rise in rates, it might help shorten the duration of your bond portfolio. It's important to note, though, that shortening duration alone may not ensure that a portfolio is adequately protected while generating a reasonable return.

## **2) Increase Credit Spread Risk**

A credit spread is the difference in interest rates between a U.S. Treasury bond and another type of bond of the same maturity but different credit quality. Typically, bonds with a lower credit quality offer higher interest rates than U.S. Treasury bonds. The risk for investors is that a bond with a lower credit quality comes with a higher risk of default. Default means a bond has missed an interest or principal payment.

So, how does this strategy work? Most importantly, investors must consider whether the potential benefit of receiving a higher interest rate is worth the higher risk of default. If this strategy is implemented, the fixed-income portion of a portfolio is oriented away from U.S. Treasury bonds and toward investments that increase credit spread risk. This category includes corporate bonds, mortgages, and high-yield investments. High-yield investments have lower credit

ratings than investment-grade corporate bonds, although they typically offer higher yields.

These investments are a step out on the risk spectrum, but the risk is concentrated on credit spread risk. Corporate bonds, mortgages, and high-yield investments are typically driven by improving economic fundamentals. As a result, they could benefit from rising rate environments that see faster economic growth. Given the reasons for the recent inflation increase—namely reopening efforts and economic recovery—spread-oriented investments may make sense for some investors.

It's important to note that corporate bonds, mortgages, and high-yield investments are not immune to the negative effect rising interest rates may have on prices. Nonetheless, the move from primarily interest rate-sensitive to spread-oriented investments could help lower the interest rate risk of a fixed income allocation. These investments could potentially provide a reasonable yield by shifting the risk exposure toward credit.

### **3) Consider Foreign Exposure**

It might also be beneficial to shift a portion of your fixed income allocation to international bonds. Several factors can affect global interest rates, but the economic fundamentals for individual countries primarily drive their respective rates. Given the diverging global economic recovery, tactical opportunities may arise in developed and emerging international markets.

Including international bonds diversifies a bond portfolio away from U.S.-based interest rate risk. Accordingly, this strategy could help dampen price volatility for a fixed income allocation when interest rates are rising.

As with spread-oriented investments, this strategy involves some

interest rate risk. Still, diversifying exposure to include foreign interest rate risk may help lower a portfolio's overall volatility.

#### **4) Employ Yield Curve Positioning**

Another strategy to consider is focusing on holding a diversified portfolio of fixed income investments spread across the yield curve. What is the yield curve? A yield curve is a line that plots the interest rates (also known as the yield) of bonds having equal credit quality but different terms to maturity.

When analysts consider interest rate risk, most hypothetical scenarios envision an environment where rates shift in parallel across the yield curve. In reality, however, this scenario rarely happens.

The interest rates for bonds usually depend on whether it's a short-term or long-term bond. Short-term bonds are generally more sensitive to changes in the Federal Reserve's monetary policy. On the other hand, interest rates for a long-term bond are driven more by the outlook for long-term economic growth. Given this fact, holding a bond portfolio with a diversified range of maturity dates could help protect against changes in monetary policy that increase interest rates.

Bond laddering is a strategy that can help diversify interest rate risk exposure across the yield curve. Instead of buying bonds that are scheduled to come due during the same year, purchasing bonds that mature at staggered future dates should be considered. This can allow for more regular reinvestment of income and helps insulate a portfolio against yield changes in a certain segment of the market.

**Need Additional Information?**

For assistance in evaluating your options, please contact me. We'll talk through these strategies for managing the potential outcomes and risk of your fixed income portfolio.

*Bonds are subject to availability and market conditions; some have call features that may affect income. Bond prices and yields are inversely related: when the price goes up, the yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity.*

*A bond ladder, depending on the types and amount of securities within the ladder, may not ensure adequate diversification of your investment portfolio. While diversification does not ensure a profit or guarantee against loss, a lack of diversification may result in heightened volatility of the value of your investment portfolio.*

*The main risks of international investing are currency fluctuations, differences in accounting methods; foreign taxation; economic, political or financial instability; lack of timely or reliable information; or unfavorable political or legal developments.*

*This material is intended for informational/educational purposes only and should not be construed as investment advice, a solicitation, or a recommendation to buy or sell any security or investment product. Investments are subject to risk, including the loss of principal. Some investments are not suitable for all investors, and there is no guarantee that any investing goal will be met. Past performance is no guarantee of future results. Please contact your financial professional for more information specific to your situation.*



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# Debt Management in a Healthy Financial Plan

Wise debt management is a key component of healthy and effective financial planning. Today, most people carry some amount of debt to finance a degree or buy a home or car. Other debts may be incurred out of necessity or as part of an investment plan. Whatever your reasons for taking on debt, you should understand the different types of debt and their risks. This knowledge will help you manage debt wisely as part of your overall financial plan.

## Primary Types of Debt

The two primary types of debt are:

- **Unsecured debt.** Credit card balances and student loans are common types of [unsecured debt](#). Typically (without considering pandemic-related relief), missing one or more of your monthly payments on unsecured debt could result in late fees, increased interest rates, damage to your credit score, and/or action by a collection agency. A [delinquent](#) borrower can also be sued by the lender.
- **Secured debt.** With [secured debt](#), the lender has an interest in an asset, such as a home mortgage or car loan. In the event of default, the lender has a legal right to repossess its interest in the asset.

## Risks to Consider

The distinction between unsecured and secured liabilities should not lead to conclusions about when debt is appropriate. Credit

card balances and car loans, for example, are rarely part of a healthy financial plan, in part because assets acquired this way are subject to rapid depreciation. Furthermore, because unsecured debt is convenient, it can get out of control quickly. So, avoiding credit card debt and car loans is advisable unless you have a strict budget and the discipline to stick to it.

Other types of debt, such as mortgages and business loans, could increase your long-term net worth, provided the asset value increases or remains more valuable than the loan balance. In these cases, you have less risk of the debt getting out of control because secured loans can be fully satisfied by disposing of the secured asset. But the obvious downside is you could lose your home, car, or other valued asset. As a result, even if secured debt has lower interest rates and more favorable terms, you should carefully weigh the potential downsides before taking it on.

### **How Much Debt Can You Afford?**

With any type of loan, lenders decide what level of risk they will accept when making a lending decision. Factors they consider include credit history and the prospective borrower's debt-to-income ratio. But the lender's main concern is answering the question, "What is the maximum amount we can offer this borrower with the least likelihood they will default on the loan?"

It's important to realize that a lender's willingness to loan funds does *not* mean accepting the loan is prudent. When analyzing your ability to carry debt, consider your budget carefully and focus on the following:

**Liquidity.** If you suddenly lost your job, would you have enough cash to cover your current liabilities? It's a good idea to maintain an emergency fund to cover three to six months of

expenses. But don't go overboard. Guard against keeping more than 120 percent of your six-month expense estimate in low-yielding investments. And don't let more than 5 percent of your cash reserves sit in a noninterest-bearing checking account.

**Current debt.** Your total contractual monthly debt payments (i.e., minimum required payments) should come to no more than 36 percent of your monthly gross income. Your consumer debt—credit card balances, automobile loans and leases, and debt related to other lifestyle purchases—should amount to less than 10 percent of your monthly gross income. If your consumer debt ratio is 20 percent or more, avoid taking on additional debt.

**Housing expenses.** Generally, your monthly housing costs—including your mortgage or rent, home insurance, real estate taxes, association fees, and other required expenses—shouldn't amount to more than 31 percent of your monthly gross income. If you're shopping for a mortgage, keep in mind that lenders use their own formulas to calculate how much you can afford. These formulas may not work for your situation. For a mortgage insured by the Federal Housing Administration, your housing expenses and long-term debt should not exceed 43 percent of your monthly gross income.

**Savings.** Although the standard recommended savings rate is 10 percent of gross income, your guideline should depend on your age, goals, and stage of life. You should save more as you age, for example, and as retirement nears, you may need to ramp up your savings to 20–30 percent of your income. Direct deposits, automatic contributions to retirement accounts, and electronic transfers from checking accounts to savings accounts can help you make saving a habit.

### **Debt Pay-Down Strategies**

If you're carrying debt that exceeds what's normal for the

average household, we can discuss strategies to pay it down as aggressively as is reasonable. Here are two approaches to consider:

- **Snowball debt elimination.** This involves identifying lowest-balance debts and targeting them for priority repayment while making only the minimum payment on other items of debt. Once the lowest balance is paid off, move on to paying down a new set of lowest-balance debts.
- **Debt avalanche.** This strategy advocates paying off debts with the highest interest rate first. This makes mathematical sense but requires discipline and the ability to stick with the process.

### **Debt and Your Investment Plan**

In some cases, you may believe that holding debt, such as a mortgage or margin investments, is beneficial. This idea is usually based on the potential for your investments to outperform the interest rate on the applicable loan and the investment opportunities you could explore with that extra liquidity.

For instance, you might believe that paying off a mortgage or margin loan could represent a tax-free return on investment essentially equal to the interest rate paid on the debt. But you would enjoy a significant net benefit only if the rate of return substantially exceeds the cost of the interest. And that result cannot be guaranteed. So, though this strategy could potentially yield a monetary benefit, the overall risk involved is significant.

### **Need Additional Information?**

We'll talk through these strategies for managing debt and explore other planning solutions that can help you stay or get on track to financial security. By carefully approaching debt

with a detailed plan on how much to borrow and how to repay your debt, you can reach your goals and support your long-term financial success.

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## **More Generous Savings Provisions for Retirement Planning in 2022**

By [Sarah Ruef-Lindquist, JD, CTFA](#)

In 2022, retirement contribution limits for 401(k) and other types of defined contribution plans (403(b), 457 and Thrift Savings plans) will increase \$1,000 to \$20,500 for those under age 50, and for those 50 and older to \$27,000.

This amount is \$1,000 higher than it has been and is great news for retirement savers. Taking advantage of plans that allow taxpayers to make pre-tax contributions that then are treated as

tax-deferred until withdrawn in retirement is a smart part of retirement planning.

Pre-tax contributions reduce your tax liability because the amount of the contribution is deducted from gross income. The retirement account is not taxed on any income or capital gain as long as funds remain in the IRA, with the exception of amounts withdrawn. Those are taxed as ordinary income. Taxes can be delayed to age 72, when annual minimum distributions are required to begin. Then income tax is due on withdrawals.

There is no change in the contribution limit for Individual Retirement Accounts (IRA's). That amount remains at \$6,000 for those under age 50, and \$7,000 for those age 50 and older. The amount has not changed since 2019.

Other recent legislation allows people to continue to make contributions after age 70, as long as they have income of at least the amount of the contribution.

More workers may now qualify for Roth IRA contributions, based on income phaseouts that are rising \$4,000 (\$129,000 – \$144,000) for single filers and rising \$6,000 (\$204,000 – \$214,000) for married filing jointly.

Be sure to check with your tax preparer or financial advisor about how any changes in the laws regarding retirement savings and planning impact your particular situation.

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## **Sarah Ruef-Lindquist Discusses**

# 'Pandemics and Planned Giving'

Pandemics and Planned Giving was the topic of a presentation made by Sarah Ruef-Lindquist, JD, CTFA at the Northern New England chapter of the Association of Fundraising Professionals annual conference, held Nov. 3 and Nov. 4.

Ruef-Lindquist, a financial advisor at Allen Insurance and Financial in Camden, said the COVID-19 pandemic drove people to focus on estate planning, while the confluence of historic stock and real estate values, potential estate and income tax changes and compelling societal need has laid the groundwork for many fruitful conversations with organizations' most loyal supporters.

Ruef-Lindquist explored these dynamics, which she said could impact gift planning for years to come. Attendees at the conference, held in Manchester, N.H., included approximately 150 fundraising and non-profit professionals from across Maine, New Hampshire and Vermont.

Ruef-Lindquist has had a role in planned giving as an attorney, former trust officer and philanthropic advisor and consultant to non-profits across New England. She is outgoing president of the Maine Planned Giving Council and she previously served as vice president for Southern Maine at the Maine Community Foundation and CEO of the Maine Women's Fund.

*The Certified Trust and Financial Advisor (CTFA) designation awarded by the Institute of Certified Bankers, American Bankers Association.*

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# Your Guide to Year-End Financial Planning: A 10-Point Checklist

From the hope that came with reopening to the disappointment of another COVID-19 resurgence, 2021 is panning out to be another roller-coaster year. With the fourth quarter upon us, one routine remains consistent: it's time to start organizing your finances for the new year. New rules related to the pandemic, coupled with tax and retirement changes that carried over from last year, means there's a lot to consider. This checklist highlights some key points to help guide you as you get started.

## 1) Boost Your Retirement Contributions

**Workplace accounts.** Are you maximizing contributions to your workplace plan? If not, now's the time to think about increasing your contribution to take full advantage of any employer match benefit. For 2021, the maximum employee deferral for 401(k), 403(b), and 457 accounts is \$19,500, and individuals ages 50 and older can defer an additional catch-up of \$6,500. For SIMPLE IRAs, the deferral remains \$13,500 and the catch-up is \$3,000.

**Traditional IRA.** Maxing out your contributions to a traditional IRA is another option. The SECURE Act repealed the maximum age for contributions, so individuals ages 70 and a half and older who earned income in 2021 can contribute to a traditional IRA. Modified adjusted gross income (MAGI) limits for contributions to traditional and Roth IRAs increased in 2021, so be sure to [review MAGI eligibility thresholds](#). The maximum contribution amount to a traditional or Roth IRA remains \$6,000 with a \$1,000 catch-up for clients ages 50 and older.

## 2) Use FSA Dollars and Make HSA Contributions



Note that in 2020, the IRS relaxed certain use-or-lose restrictions for Flexible Spending Accounts (FSAs) that remain in effect this year. Employers can extend the grace period for unused FSAs up to 12 months in 2021. In addition, if you have a dependent care FSA, you can save as much as \$10,500 in 2021

If you have a high deductible health plan (HDHP), now is a good time to explore maximizing your Health Savings Account (HSA) contributions. In 2021, the maximum contribution for an individual HSA is \$3,600, and the maximum for a family HDHP is \$7,200. If you're age 50 or older you can contribute an additional \$1,000. We're happy to discuss prorated contributions with you if you had an HDHP for part of 2021.

### **3) Manage Your Marginal and Capital Gains Tax Matters**

If you're on the threshold of a tax bracket, you may be able to put yourself in the lower one by deferring some income to 2022. Here are a few thresholds to keep in mind:

- **37 percent marginal tax rate:** Taxable incomes exceeding \$523,600 (individual), \$628,300 (married filing jointly), \$523,600 (head of household), and \$314,150 (married filing separately)
- **20 percent capital gains tax rate:** Taxable incomes exceeding \$445,851 (individual), \$501,601 (married filing jointly), \$473,751 (head of household), and \$250,801 (married filing separately)
- **8 percent surtax on investment income:** The lesser of net investment income or the excess of MAGI greater than \$200,000 (individual), \$250,000 (married filing jointly), \$200,000 (head of household), and \$125,000 (married filing separately)
- **9 percent additional Medicare tax:** W-2 earnings and self-employment income above the same MAGI thresholds as the

investment income surtax (For clients with W-2 earnings above the MAGI thresholds, total Medicare taxes will be 2.35 percent; for self-employed clients, total Medicare taxes will be 3.8 percent.)

#### **4) Pay Attention to American Rescue Plan (ARP) Details**

This statute, signed into law by President Biden in March 2021, changed the Child Care Tax Credit and the Child and Dependent Care Credit (for 2021 only). It also changed the taxation of unemployment compensation and canceled student debt.

- **Child Tax Credit:** In July 2021, the IRS began issuing 50 percent of this credit in six monthly advanced payments. Payments are based on 2020 income, so if your income increased in 2021, keep in mind you may need to reconcile the advanced payments. Be sure to review your [eligibility for the credit](#).
- **Child and Dependent Care Credit:** In 2021, the credit is fully refundable. If your family earns less than \$125,000 annually, you may claim a 50 percent refundable credit on care expenses of \$8,000 for one child or dependent or expenses of \$16,000 for two or more children or dependents.
- **Unemployment compensation:** In 2020, \$10,500 of unemployment benefits were exempt from income tax. This exemption does not apply in 2021, so if you received benefits but didn't have taxes withheld, it's possible you may owe taxes.
- **Canceled student debt:** Under the ARP, you won't owe taxes on student loans that are canceled or forgiven between 2021 and 2025. This relief applies to both federal and private loans.

#### **5) Rebalance Your Portfolio**

Reviewing your capital gains and losses may reveal tax planning

opportunities, such as harvesting losses to offset capital gains.

## **6) Make Your Charitable Giving Payoff**

The CARES Act above-the-line deduction was extended to 2021, meaning you can deduct up to \$300 per person (\$600 if you file jointly) for cash charitable contributions. If you itemize, the deduction of up to 100 percent for all cash charitable contributions is available in 2021. (**Please note:** This deduction doesn't apply to cash contributions made to donor-advised funds or private, nonoperating foundations)

Qualified charitable distribution (QCD) rules haven't changed, so if you're older than 70 and a half, you can make a QCD of up to \$100,000 directly to a charity; if you're married and filing jointly, you may exclude up to \$100,000 donated from each of your and your spouse's IRA.

## **7) Form a Plan for Stock Options**

If you hold stock options, it's a good idea to develop a strategy for managing your current and future income. As part of this, be sure to have your tax advisor prepare an alternative minimum tax (ATM) projection. Keep in mind, ATM exemption limits increased in 2021 to \$73,600 for single tax filers and \$114,600 for married joint filers. If you're thinking about exercising incentive stock options, you may want to wait until January 2022 if, depending on your ATM projections, there's any tax benefit to waiting.

## **8) Prepare for Estimated Taxes and RMDs**

- Under the SECURE Act, if you reached age 70 and a half after January 1, 2020, you can wait until you turn 72 to start taking RMDs. RMDs are required in 2021.
- If you took coronavirus-related distributions (CRDs) from your retirement plan, we can review the repayment option

you chose in 2020. Remember, the choice not to repay all of a CRD in 2020 is irrevocable.

- If you took a 401(k) loan after March 27, 2020, you'll also need to establish a repayment plan and confirm the amount of accrued interest.

## **9) Adjust Withholding and Prepare for Student Loan Repayment**

If you think you may be subject to an estimated tax penalty, consider asking your employers (via Form W-4) to adjust your withholding to cover shortfalls. The [IRS tax withholding calculator](#) can help you with your estimates.

Student loan payments, which the CARES Act paused in March 2020, are scheduled to resume in February 2022. If you reduced other debt during this period, you'll need to adjust your monthly cash flow to include upcoming student loan payments.

## **10) Assess Your Estate Plans**

Year-end is always a good time to review and update your estate plan to make sure it's still in line with your goals and accounts for any change in circumstances. Depending on your net worth, establishing a defective grantor trust, spousal lifetime access trust, or irrevocable life insurance trust may be an effective strategy to reduce your estate tax exposure. In addition, take the time to update your beneficiary designations and review trustee appointments, power of attorney provisions, and health care directives.

## **Rely on Us as a Resource**

It's not too early to get a jump on planning—and even though your situation is unique to you, this high-level checklist can be a great starting point. Please feel free to contact us to talk through the issues and deadlines that affect you. We're also happy to collaborate with your CPA, attorney, and other professionals you work with to help ensure you're prepared for the coming year.

*This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer. Third party links are provided to you as a courtesy and are for informational purposes only. We make no representation as to the completeness or accuracy of information provided at these websites.*

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# **Retirement Savings and Tax Legislation in the Pipeline**

By [Sarah Ruef-Lindquist, JD, CTFA](#)



Sarah Ruef-Lindquist, JD, CTFA

Last October, I wrote about some of the changes possibly in store for individuals and their income taxes as 2021 approached. Now, a year later, we have a little bit better idea of what

MIGHT be in store, but Congress has not yet submitted a bill for the president's signature. There has also been some discussion and activity around further modification of laws for retirement savings in addition to those in the SECURE Act from 2019 that would impact how and when people save for retirement, and how those retirement funds are accessed.

We have had a House version and a Senate version produced on the tax laws, and here's what I'm seeing for possible provisions, based on what I'm reading and hearing from folks in DC who focus on these developing issues:

- According to an article in Forbes [1], income tax rates will rise modestly, bringing individual tax rates to 39.6% for ordinary income for married individuals who file jointly with taxable income over \$450,000, heads of household with taxable income over \$425,000, and unmarried individuals with taxable income over \$400,000.
- Maximum capital gains tax rates would also increase from 20% to 25%, for sales that occur on or after Sept. 13, 2021, and will also apply to Qualified Dividends. The present rate of 20% will continue to apply to any gains and losses incurred prior to September 13, 2021, as well as any gains that originate from transactions entered into under binding written contracts prior to September 13, 2021.
- For IRA owners with large IRAs, accounts that exceeds \$10 million as of the end of a taxable year, no further contributions will be allowed if the owner has taxable income over \$400,000, or married taxpayers filing jointly with taxable income over \$450,000. These large IRA owners will be required to make a minimum distribution equal to "50% of the amount by which the individual's prior year aggregate tradition IRA, Roth IRA, and defined contribution account balance exceeds the \$10 million

limit". Even more extreme treatment will apply to those who have over \$20,000,000 in combined accounts.

A "Secure 2.0" bill has some additional provisions for retirement accounts. According to [www.benefitspro.com](http://www.benefitspro.com)[2] , for those aged 62-64 with a 401(k), catch-up contributions would increase from \$6,500 to \$10,000. Similarly, for that same age bracket contributing to a SIMPLE IRA or Simplified Retirement Plan (SEP), catchups would increase from \$3,000 to \$5,000 per year.

Required Minimum Distributions (RMDs) are IRS-mandated amount of money that must be withdrawn from traditional IRAs or employer-sponsored retirement accounts each year. The current RMD start age is 72-years old, but this legislation would incrementally increase that age from 72- to 75-years old over the next ten years. A few extra years of tax-free appreciation and income could yield additional funds if the market does well.

- RMD 73 starting on Jan 1, 2022
- RMD 74 starting on Jan 1, 2029
- RMD 75 starting on Jan 1, 2032

The penalties for missing an RMD would also change. Currently, there is a 50% excise tax on withdrawals that do not occur within the specified window. SECURE 2.0 would reduce this penalty to 25%, and only 10% if corrected in a timely manner.

Finally, we wrote last year we were anticipating losing favorable tax treatment for inherited investments. Essentially, we were hearing that the long-standing "step-up in basis" was going away. This would mean that heirs would have to use the tax basis of their benefactor to calculate their own capital gain upon sale of these assets, rather than using the value on the date of the benefactor's death for basis. This was the "step-up" we had come to use for many years to reduce the impact of

capital gains on inheritances. The provision appears to be safe – for the time being – as its removal is not in the most recent versions of proposed legislation.

Be sure to check in with your financial and tax advisors about how these provisions may impact your tax or retirement savings situations. The final versions of the legislation may differ widely from what we have summarized above.

Sources:

[ 1 ]

<https://www.forbes.com/sites/alongassman/2021/09/16/income-tax-law-changes-what-advisors-need-to-know/?sh=7170396517ff>

[ 2 ]

<https://www.benefitspro.com/2021/09/16/what-americans-need-to-know-about-the-secure-act-2-0/?slreturn=20210904132953>