Financial Focus

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Have financial questions? Every week, TheBayNet will spotlight a Financial Focus article on an important topic provided by Edward Jones Financial Advisor Wilman Wai Man Cheung.

Today, she looks at ideas for thanking your family.

Ideas for Thanking Your Family

It's almost Thanksgiving. And although 2020 may have been a difficult year for you, as it has been for many people, you can probably still find things for which you can be thankful – such as your family. How can you show your appreciation for your loved ones?

Here are a few suggestions:

• **Invest in your children's future**. If you have young children – or even grandchildren – one of the greatest gifts you can give them is the gift of education. You may want to consider contributing to a higher education funding vehicle.

• **Be generous.** Do you have older children, just starting out in life? If so, they could well use a financial gift to help pay off student loans, buy a car or even make a down payment on a home. You can give up to $15,000 per year, per recipient, without incurring gift taxes. Of course, you don't have to give cash – you might want to consider presenting your children with shares of stock in companies they like.

• **Review your insurance coverage**. If you weren't around, it would leave some gaping holes – financial and otherwise – in the lives of your family members. That's why it's essential you maintain adequate life insurance. Your employer might offer a group plan, but it may not be sufficient to meet your needs. There's no magic formula for determining the right amount of coverage, so you'll have to consider a variety of factors: your age, spouse's income, number of children and so on. Also, you may want to consider disability insurance – if you were unable to work for a while, it could cause a real problem for your family's finances.

• **Preserve your financial independence.** When your children are young, you take care of them. But you certainly don't want them to have to do the same for you – so it's essential you maintain your financial independence throughout your life. You can do this in at least a couple of ways. First, consider investing regularly in your 401(k), IRA and other retirement accounts. The greater your resources during your retirement years, the less you may ever need to count on your family. And second, you may want to protect yourself from the devastating costs of long-term care, such as an extended nursing home stay. A financial professional can suggest a strategy to help you cope with these expenses.

• **Create an estate plan.** To leave a legacy to your family, you don't have to be wealthy – but you do need a comprehensive estate plan. You'll have to think through a lot of questions, such as: Have I named beneficiaries for all my assets? How much do I want to leave to each person? Do I need to go beyond a simple will to establish an arrangement such as a living trust? For help in answering all these issues, you'll want to work with an attorney.

By making these moves, you can show your loved ones, in a tangible way, how much you value them – and that can help you keep the spirit of Thanksgiving alive all year long.

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Year-end Tax-Smart Moves to Consider

As 2020 draws to a close, you might wonder how you can improve your tax situation – especially in terms of your investments. Here are a few year-end ideas to consider:

• **Be a tax-loss harvester.** In taxable investment accounts, you could sell investments that have lost value and use the losses to offset income from any capital gains you might have from selling investments that have appreciated. If you have an overall net capital loss for the year, you can deduct up to $3,000 of that loss against other kinds of income, including your salary and interest income. Unused net capital losses can carry over to future years. This strategy works best if you're in a higher tax bracket now than you expect to be in the future.

Take into account any costs associated with selling investments and be aware of the IRS' "wash sale" rules, which prohibit you from claiming the losses if you purchase a "substantially identical" security 30 days before or after the sale of a position sold at a loss. You may want to work with a financial professional to find a replacement investment to keep you invested in the market. See your tax advisor before embarking on this type of tax-loss "harvesting."

• **Avoid mutual funds about to pay out taxable distributions.** In December, many mutual funds pay out dividends and capital gains that have accrued over the year. If you're planning to buy shares of a mutual fund in a taxable investment account, avoid purchasing funds on the verge of paying large taxable distributions. Instead, consider a more tax-efficient exchange-traded fund (ETF) or mutual funds that aren't expecting large payouts. Conversely, if you were planning to sell a fund anyway, you could possibly reduce taxes by selling before the dividends are distributed.

• **Boost your tax-favorable contributions.** If you haven't maxed out your contributions to your employer's retirement plan, health savings account (HSA), and/or IRA, make additional contributions for 2020 if you can. If your employer suspended 401(k) matches this year and you can afford it, consider increasing your contribution to make up for the lost amounts. Traditional pre-tax contributions are deductible and reduce your taxable income in 2020, while Roth contributions will generally reduce your taxable income in future years, when you take withdrawals from Roth accounts.

• **Consider strategies in a year without RMDs.** If you're older than 72 (or 70½ if you were born before July 1,1949), you typically need to take annual taxable withdrawals – technically called required minimum distributions, or RMDs – from your traditional IRA or 401(k). However, you got some relief this year, as RMDs are not required because of the COVID-19 pandemic. Nonetheless, you may want to consult with your financial advisor and tax professional to determine if a distribution from a traditional/pre-tax account still makes sense. If you're in a lower tax bracket this year than you expect to be in future years, you may benefit from taking advantage of lower rates. Alternatively, if you don't need the distribution to cover expenses, you might explore if a Roth conversion makes sense.

Your key motivator, in all investment-related decisions, should be whether your choices will help you achieve your long-term goals. Within this framework, taxes do matter – so, do what you can to control them.

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When Facing Illness, Take Control of Finances

In light of the coronavirus pandemic, virtually all of us have considered health-related issues. But for people facing a serious, chronic illness, such as Parkinson's disease, multiple sclerosis, diabetes or cancer, health concerns are an everyday matter. If you're fortunate, you may never be afflicted with such maladies, but the future is unpredictable. Of course, going through these health challenges bring physical and emotional concerns – but also financial ones. How can you prepare for them?

Essentially, you'll need to consider four key areas: investments, insurance, legal arrangements and taxes. Let's take a quick look at each of them:

Investments – You'll likely need to draw on your investments for at least some of the expenses associated with your illness. So, within your portfolio, you may want to establish a special fund devoted entirely to these costs, whether they be health care, modifications to your home, transportation and so on. A financial professional can help you choose investments for this fund, as well as make recommendations for your overall investment strategy, including techniques for boosting your income, such as adding investments that can provide an income stream that kicks in when you think your costs will rise.

Insurance – Depending on your health status, you may be able to collect Medicare earlier than the traditional starting point at age 65. Even so, you'll likely need to supplement it with additional coverage. But you may also want to look beyond health insurance. For example, you might be able to purchase a "chronic illness rider" that allows you to tap into life insurance benefits while you're still alive. Or you might consider adding a "long-term care rider" to a life insurance policy; this rider offers financial benefits if you ever require daily care that you can't provide for yourself. And some foundations, states and drug companies offer programs that can help pay for some costs that your insurance won't cover.

Legal arrangements – If you haven't already done so, you may want to establish the legal documents most appropriate for your situation, such as a durable power of attorney for finances, which gives someone the authority to manage your financial affairs if you become temporarily incapacitated, possibly due to flare-ups of your chronic disease. Once you've recovered, you regain control of your financial decisions. You might also want to consider a health care proxy, which appoints an individual to make medical decisions for you if you can't. In creating or revising these documents, you'll need to consult with your legal professional.

Taxes – You might qualify for Social Security disability payments, which, like other Social Security benefits, are taxable, so you'll need to be aware of what you might owe. But you might also be eligible for some tax breaks related to your condition. If you still itemize tax deductions, you may be able to deduct some medical expenses, as well as certain home improvements, such as wheelchair ramps, bathtub grab bars, motorized stairlifts and so on. Your tax advisor may have suggestions appropriate for your situation.

Dealing with a chronic illness is never easy. But by considering how your illness will affect all aspects of your life, getting the help you need, and taking the right steps, you may be able to reduce the financial stress on you and your loved ones.

What Should Investors Know About the Election?

The election is, of course, big news. But there's more than one way to look at it. As a citizen and voter, you have your own preferences about the issues and the candidates. But as an investor, should you be rooting for any particular outcome?

You might be surprised at how a major event can have such a minor impact on your long-term investment success. To understand why, consider the following four factors:

• **Election results don't determine the market's success.** A few different configurations can result from an election. One party could win the presidency, while the other could gain both chambers of Congress. Or one party could take the White House, but the two parties could split Congress, with one controlling the House of Representatives and the other gaining the Senate. Or one party could win it all. But here's the key point: In the past, under all these scenarios, the financial markets have done well at some times and not so well at others. In short, there's no one "right" political configuration that spells success or failure for investors.

• **Different policies won't change our basic investment landscape.** Of course, each presidential administration will push for its own policies, and the same is true for every new Congress. And some legislation will indeed affect investors in some ways. For example, tax rates on capital gains and dividends have changed many times in the past, and they may well change again. If they do, adjustments to your investment strategy may be appropriate. But in the bigger picture, we live in a democratic system that mostly limits the power of one administration or political party to radically overhaul the economy, which is primarily made up of consumer spending and business investment. For investors, this means the rules of the game, so to speak, will probably remain consistent no matter who's in charge in Washington.

• **Market fundamentals are "non-partisan."** Obviously, the pandemic has wreaked havoc on normalcy in many areas, including the economy. But, eventually, we will get past COVID-19, and when we do, the same fundamental factors that have always driven the economy and the markets – corporate profits, interest rates, consumer spending, innovation, productivity and so on – will do so again. And these fundamentals are non-partisan – they maintain their strength no matter what party controls the presidency or Congress.

• **You're in control of your own investment choices.** We may well experience some volatility in the markets before and after the election. But, in the long run you, rather than any external forces or election results, control your investment success. And that means you need to follow proven investment principles, such as owning investments that reflect your goals and risk tolerance, staying invested no matter which direction the markets are moving, and avoiding bad habits such as chasing after "hot" stocks that may not be suitable for your needs.

A presidential election is important for a number of reasons – but it probably won't greatly affect your investment success. Ultimately, staying on track to achieve what's most important to you means being aware of the factors that affect the financial markets, putting them in perspective and then making appropriate decisions that are aligned with your longer-term goals.

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