

# Beyond the Basics

## Customized Wealth Strategies

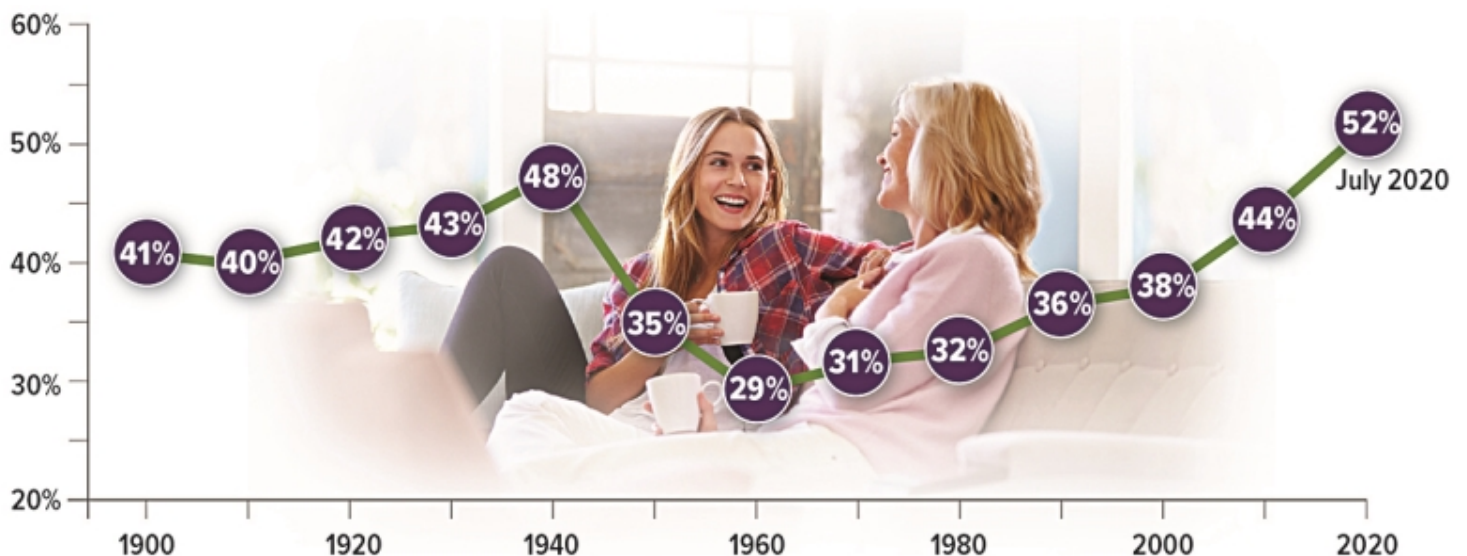


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## Majority of Young Adults Living at Home

In 2020, a record number of 18- to 29-year-olds lived at home with their parents. In July, 52% of young adults were living at home, surpassing the previous high of 48% recorded in 1940 at the end of the Great Depression. This record return to the family home has been driven by the coronavirus pandemic and exacerbated by the overall economic downturn, record-low housing inventory along with a shortage of affordable entry-level homes, and high levels of student debt. The number of young adults living with their parents grew across the board for all demographic groups and regions of the country.



Source: Pew Research Center, 2020

# 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

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2021 (the same 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.

# Are Value Stocks Poised for a Comeback?

Growth stocks have dominated the market for the last decade, led by tech giants and other fast-growing companies. While it's possible this trend may continue, some analysts think that value stocks may have strong appeal during the economic recovery.<sup>1</sup>

No one can predict the market, of course. And past results are never a guarantee of future performance. But it may be helpful to consider these two types of stocks and the place they hold in your portfolio.

**Value stocks** are associated with companies that appear to be undervalued by the market or are in an industry that is currently out of favor. These stocks may be priced lower than might be expected in relation to their earnings, assets, or growth potential. In an expensive market, value stocks can offer bargains.

Established companies are more likely than younger companies to be considered value stocks. Older businesses may be more conservative with spending and emphasize paying dividends over reinvesting profits. The potential for solid dividend returns regardless of market direction is one reason why value stocks can be appealing, especially in the current low-interest environment. An investor who purchases a value stock typically expects the broader market to eventually recognize the company's full potential, which might push the stock price upward. One risk is that a stock may be undervalued for reasons that cannot be easily remedied, such as legal difficulties, poor management, or tough competition.

**Growth stocks** are associated with companies that appear to have above-average growth potential. These companies may be on the verge of a market breakthrough or acquisition, or they might occupy a strong position in a growing industry. The dominance of large technology stocks over the last few years is one example of this.

Growth companies may be more aggressive with spending and place more emphasis on reinvesting profits than paying dividends (although many larger growth companies do offer dividends). Investors generally hope to benefit from future capital appreciation. Growth stocks may be priced higher in relation to current earnings or assets, so investors are essentially paying a premium for growth potential. This is one reason why growth stocks are typically considered to carry higher risk than value stocks.

## Diversification and Weighting

Value and growth stocks tend to perform differently under different market conditions (see chart). For diversification, it may be wise to hold both value and growth stocks in your portfolio, but this can be accomplished by investing in broad index funds, which generally include a mix of value and growth stocks. These are considered *blended funds*.

## Different Styles for Different Times

Value and growth are considered investing *styles*. The last 10 years have been a strong period for growth stocks, but value stocks were stronger during the previous decade, which included two recessions with extended bear markets.



Source: FTSE Russell, 2021, for the period 1/1/2001 to 12/31/2020. Value stocks and growth stocks are represented by the Russell 1000 Value Index and the Russell 1000 Growth Index, respectively. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Investment fees, charges, and taxes were not taken into account and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Past performance is no guarantee of future results. Actual results will vary.

Typically, investors who follow a value or growth strategy weight their portfolios to one side or the other through funds or individual stocks. If you use a mutual fund or exchange traded fund (ETF) to emphasize value or growth in your equity portfolio, it's important to understand the fund's objectives and structure, including the index that the fund uses as a benchmark.

Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against loss. The return and principal value of stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

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

1) *The Wall Street Journal*, September 30, 2020

# Umbrella Insurance Offers Extra Liability Coverage

Accidents can happen, no matter how careful you are. Even if you make every effort to help ensure that your house and the surrounding area are safe for visitors, rain, snow, or ice can cause slippery stairs and walkways. You might face an increased risk of having a liability claim filed against you if you have a dog, a swimming pool, a trampoline, employ workers in your home, or own a rental property. Or you could be held responsible for a serious auto accident — a special concern if you have a teenage driver.

American society is litigious, and some legal judgments seem excessive. Standard homeowners and auto insurance policies generally cover personal liability, but you may not have enough coverage to protect your income and assets in the event of a high-dollar judgment. That's when umbrella insurance could be a big help, providing additional coverage, up to policy limits.

On top of the liability coverage amount, an umbrella policy may help pay legal expenses and compensation for time off from work to defend yourself in court. It might also cover situations not included in standard homeowners policies, such as libel, slander, invasion of privacy, and defamation of character.

Umbrella insurance is not just for wealthy households; it is also appropriate for middle-income families with substantial home equity, retirement savings, and current and future income that could be used to satisfy

a large jury award. (Home equity might be protected, at least in part, by state law. Qualified retirement plan assets may have some protection from creditors under federal and/or state law, depending on the plan and jurisdiction, but you would still be liable for any judgments.)



*Protecting yourself with an umbrella policy could help avoid expensive consequences down the road.*

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Although coverage and costs vary by insurer, you can typically obtain \$1 million in coverage for \$300 or less per year; higher coverage amounts can be even more cost-effective. Before adding umbrella insurance, however, you generally must purchase a certain amount of liability coverage on your homeowners and auto policies (typically \$300,000 and \$250,000, respectively), which serve as a deductible for the umbrella policy.<sup>1</sup>

Your insurer can help you determine how much current liability protection you have, and how much more you can purchase. It might be helpful to consider your assets, potential exposure, and what you consider to be an acceptable risk.

1) Insurance Information Institute, 2020

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