# After a Challenging Year, It's Time to Prepare for 2021

**DECEMBER 2020**

2020 has been a difficult year for many families, particularly those directly affected by the pandemic. The U.S. presidential election also weighed heavily on many, no matter the outcome. At the end of the day, just about every American is ready to turn the page and get positioned for a fresh start to the new year.

For investors, that means now is a good time to start making preparations, and Roosevelt Investments has five suggestions for getting ahead.

## 1. REVIEW YOUR OBJECTIVES, RISK TOLERANCE, AND ASSET ALLOCATION

The events of 2020 may have fundamentally changed the course of your longer-term retirement and investment objectives. That means your investment portfolio may need to change, too.

Changes came in many forms for many people—a lost job, an idea for a new business, a decision to buy a new home for more office space, or perhaps a decision to retire earlier than planned. If your goals and financial situation look different today than they did in January 2020, you may need to adjust a few elements of your financial plan.

Risk tolerance is one particular area worth revisiting. In February-March, the stock market plunged into bear market territory in record time, in the midst of a pandemic virtually no one understood. It was an unnerving and uncertain time, to say the very least, and we think it is important to acknowledge how you responded to the volatility. If the ups and downs felt like too much to handle, it may be worth revisiting your equity exposure going forward.

Your asset allocation should reflect your long-term goals, objectives, cash flow needs, risk tolerance, and time horizon. If 2020 changed any of these criteria, then your asset allocation most likely needs to change as well.

## 2. CHECK YOUR RETIREMENT ACCOUNT CONTRIBUTIONS AND DISTRIBUTIONS

In any given year, we would normally remind those over the age of 72 to be sure to take their Required Minimum Distributions (RMDs) from retirement accounts before the end of the year. But 2020 is different.

When Congress passed the CARES Act in March, one of the law's provisions allowed retirees to skip RMDs this year, allowing people to keep more of their retirement savings

invested while also potentially lowering taxable income for the year. If you believe you may be in a higher tax bracket in later years, however, it may still make sense to take your RMD, or you could even start converting some of your IRA money into a Roth IRA. We are happy to review your situation to see what may makes sense for you to consider.

Otherwise, if you still haven't taken your RMD for 2020—and you do not need the extra cash and a Roth conversation does not work for you—consider taking the government up on their offer and skipping your RMD this year.

For those who are still working and saving for retirement, it could make sense to try and max-out retirement contributions where possible. For employee 401(k) contributions, the deadline is December 31, so be sure to try and max out for the year (contribution limits below). Other retirement accounts (and many employer contributions) allow you to make 2020 contributions up until April 15, 2021, but we recommend not waiting until the last second if possible.

**Here is a brief list of retirement contribution limits, as per the IRS:**

### Traditional and Roth IRAs

- $6,000 ($7,000 if you're age 50 or older)

### 401(k)s

- $19,500 ($26,000 if you're age 50 or older)

### SEP IRAs

- 25% of the employee's compensation, or
- $57,000

### Simple IRA

- $13,500 ($15,500 if you're age 50 or older)

Finally, there are a couple of new rules regarding early distributions that may apply to your personal situation.

If you or your family have been impacted by COVID-19, you may be able to access up to $100,000 penalty-free from your IRA or employer-sponsored retirement plan to help meet cash flow needs. Your withdrawal is not subject to penalty, but you would still owe income taxes on the money, which you can pay over a three-year period. If you want to avoid taxation, however, you can do so by replacing the withdrawn funds within three years.

Another new feature this year is allowing retirement plan distributions up to $5,000, penalty-free, for birth or adoption expenses. This money would also be subject to income taxes, however. Before taking any action on retirement account distributions, we recommend talking with your tax advisor to determine your eligibility for these special 2020 rules.

## 3. REVIEW YOUR ESTATE PLAN AND CONSIDER YEAR-END GIVING

Perhaps the biggest travesty in 2020 was—*is*—the number of lives being lost to Covid-19. The pandemic is a stark reminder that anything can happen, and we can never truly know how life will unfold.

Estate planning is a way to introduce certainty into otherwise uncertain aspects of life. A well-constructed estate plan can ensure your wealth is cared for and distributed in exactly the manner you see fit, and it can also protect your wealth from creditors, probate court, and taxes. Done right, an estate plan can even ensure your family's financial security—perhaps for generations to come.

One aspect of estate planning to consider now (or soon) is gifting. The federal lifetime estate and gift tax exemption is currently $11,580,000, but it is scheduled fall back to $5,000,000 in 2025. With adjustments to inflation, this means that the new threshold will likely fall in the $6 million to $7 million

range. In other words, if you're planning several years ahead, you could be subject to federal estate tax if your estate is greater than $5 million, not the current $11.58 million.

We often recommend high-net worth families make lifetime gifts while the current exemption is in force, and ideally before the end of the year. Here are some gifting strategies to consider:

### Gifts to Trusts

Some trusts can be structured so that a living spouse of the grantor can access the assets in the trust if needed. Funding trusts is also a way to earmark money for future generations.

### Grantor Retained Annuity Trust (GRAT)

This type of trust allows a grantor to fund a trust and be paid an annuity over time. The grantor will receive the principal plus interest, and any remaining appreciation would remain outside the estate. GRATs are particularly useful for assets you expect to appreciate rapidly in the near future. If structured properly, GRATs do not reduce your available lifetime gifting exemption.

### Charitable Remainder Trust (CRT) and/or Charitable Lead Annuity Trust (CLAT)

For those who want their estate plan to include charitable giving, CRTs and CLATs offer two resourceful options. Charitable lead trusts involve contributing assets to a trust, having the trust pay out to charity for a set period of time, and then having the remainder of the assets in the trust go to non-charitable beneficiaries – like family members. Charitable remainder trusts work in almost an opposite fashion, with the trust providing income to non-charity beneficiaries first, then having the remainder of the assets pass on to charity.

### Qualified Personal Residence Trust (QPRT)

A lesser-known opportunity in estate planning is putting a residence in a trust, which can allow you to use the value of the residence as a gift while still using the property for a set period of time. Even if the property appreciates over time, the gift amount will be the value at the time it was committed to the trust.

### Personal Gifts to Family

Every year, every person can gift up to $15,000 to as many people as you want, without any gift or estate tax consequences. The gift does not have to be cash, either. If you have a highly-appreciated asset you can gift to someone who can sell it at a lower capital gains rate, even better. There are very few restrictions on these gifts under $15,000.

Estate planning is a complex task, so many investors tend to put it off. But if 2020 taught us anything, it's that it is important to take action and make preparations for any and every outcome. Now might be just the right time to start your estate plan or to fine tune it and make sure it is up-to-date.

On a lighter note, maybe 2020 was a good year for you financially, and the weight of the year has you inspired to make a donation to charity. There's good news: the CARES Act allowed an additional tax break for 2020, whereby you can make a tax-deductible $300 cash contribution to a charity of your choice without itemizing your donation. That means even if you take the standard deduction in filing your taxes for 2020, you can still deduct another $300.

## 4. STAY ON THE LOOKOUT FOR NEW TAX LEGISLATION

With President-elect Biden most likely taking the oath of office in January, many investors are wondering if his campaign platform of raising taxes will come to fruition.

On the tax radar: Biden's campaign has proposed raising individual tax rates for those earning over $400,000 to 39.6% from 37%, and moving corporate tax rates up to 28% from 21%. While these are indeed tax hikes, the proposed changes are not necessarily dramatic or unprecedented—tax rates were at or above these levels just four years ago, when the economy was growing.

Biden has also proposed raising Social Security payroll taxes, which are not collected on income greater than $137,700. Biden's plan would keep the cap at $137,000 but re-impose the tax on incomes exceeding $400,000, creating a barbell-like structure.

For those earning more than $1 million, it is possible that long-term capital gains and qualified dividend tax rates could bump up to ordinary income tax rates, which would be a significant increase. A Biden administration may also pursue ending the step-up provision upon death for estate plans, which could significantly increase tax burdens for heirs. Taken together, these changes would almost certainly warrant adjustments to tax and estate planning strategies.

At the end of the day, the viability of Joe Biden's tax plan depends on Democratic control of the House and Senate, which means all eyes are on the Georgia Senate races. If Democrats sweep, it would mean a higher likelihood of moving tax legislation forward, but it does not necessarily mean investors should act hastily. Major tax legislation often takes at least a year to write and pass, giving us time to digest the proposed changes.

## 5. REMEMBER TO FOCUS ON THE LONG-TERM

The pandemic, the bear market, the historic and contentious U.S. presidential election – all of these events took place within the span of a single year, and even still, the stock market is approaching all-time highs and the U.S. economy is on the road to recovery (albeit a fragile road). Being patient and focused on the long-term was a good approach for investors in 2020, in our view.

We see these types of outcomes often throughout history—the country endures a powerful and often scary adversity (war, a terrorist attack, economic recession), but the economy and markets manage to work through them with a little bit of time. 2020 is a reminder that even when the adversities seem insurmountable—and even when uncertainty is running high—being patient often pays off. We think it will going forward, too.

If you have any questions or would like our help in getting prepared for 2021, please do not hesitate to reach out to us. We'd be happy to help you get started.

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