

VFG Topics of Interest



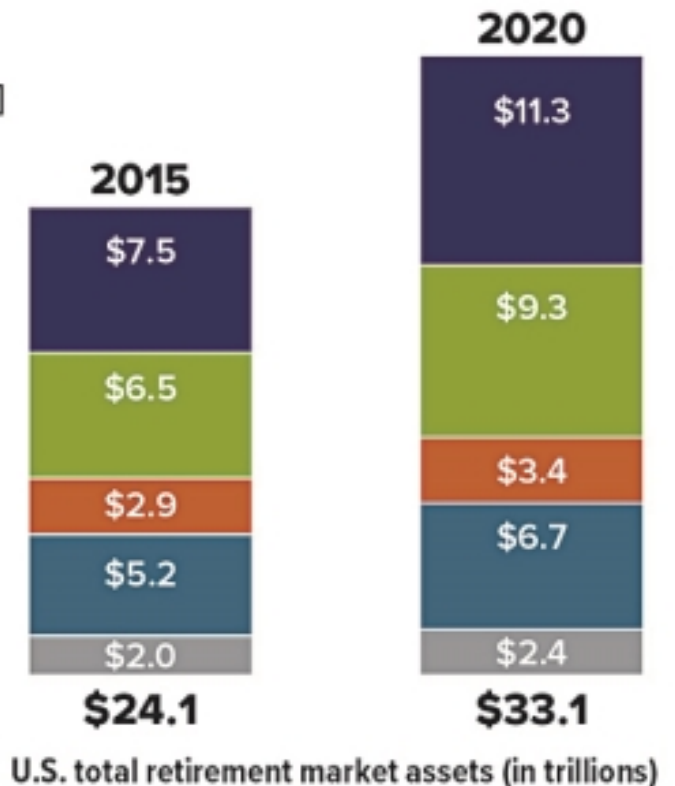
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IRAs Are Top Tool for Retirement Savings

Individual retirement accounts are the largest pool of U.S. retirement assets, which totaled \$33.1 trillion at the end of the third quarter of 2020.

- IRAs
- Defined-contribution plans [401(k), 403(b), etc.]
- Private-sector pensions
- Government pensions
- Annuities



Source: Investment Company Institute, 2020

A Financial Wellness Plan Can Help Pave the Road to Retirement

If we've learned any lesson over the past year, it's that no matter how carefully we plan and prepare, we'll likely encounter unexpected hurdles. While a global pandemic has certainly underscored the need to pay close attention to our physical wellness, it has also revealed the need to shore up our financial wellness.

According to PwC's 9th Annual Financial Wellness Survey conducted in January 2020, financial matters were the top cause of stress for employees even well before the pandemic hit in earnest. More than one-third of full-time employed millennials, Gen Xers, and baby boomers had less than \$1,000 in emergency savings. Only 29% of women said they would be able to cover their basic necessities if they found themselves out of work for an extended period, compared with 55% of men. And more than half of millennials and Gen Xers and 35% of baby boomers said they would likely use their retirement funds for something other than retirement, with most noting it would be for an unexpected expense or medical bills.¹

Although tapping your retirement savings can help you get through a crisis, it can hinder your ability to afford a comfortable retirement. Having a plan to guard your financial wellness throughout your working years can help you avoid putting your retirement at risk.

What Is Financial Wellness?

The Consumer Financial Protection Bureau (CFPB) defines financial well-being as:²

- 1) Having control over day-to-day and month-to-month finances. In order to achieve this, your expenses need to be lower than your income.
- 2) Maintaining the capacity to absorb a financial shock. This typically refers to having adequate emergency savings and insurance.

3) Being on track to meet financial goals, meaning you have either a formal or informal plan to meet your goals and you are actively pursuing them.

4) Having the financial freedom to make choices that allow you to enjoy life, such as a splurge vacation.

The CFPB has identified several key factors that contribute to an individual's ability to achieve financial well-being. Among them are: (1) having the skills needed to find, process, and use relevant financial information when it's needed; and (2) exhibiting day-to-day financial behaviors and saving habits.

Assistance Is Available

Many employers have begun offering financial wellness benefits over the past decade. These programs have evolved from a focus on basic retirement readiness to those addressing broader financial challenges such as health-care costs, general finance and budgeting, and credit/debt management.³

If you have access to work-based financial wellness benefits, be sure to take time and explore all that is offered. The education and services can provide valuable information and help you build the skills to make sound decisions in challenging circumstances.

In addition, a financial professional can become a trusted coach throughout your life. A qualified financial professional can provide an objective third-party view during tough times, while helping you anticipate and manage challenges and risks and, most important, stay on course toward a comfortable retirement.

1) PwC, May 2020

2) Consumer Financial Protection Bureau, January 2015

3) Employee Benefit Research Institute, October 2020

The Four Elements of Financial Well-Being

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

Source: CFPB, September 2017

Home-Sweet-Home Equity

Buying a home is a long-term commitment, so it's not surprising that older Americans are much more likely than younger people to own their homes "free and clear" (see chart). If you have paid off your mortgage or anticipate doing so by the time you retire, congratulations! Owning your home outright can help provide financial flexibility and stability during your retirement years.

Even if you still make mortgage payments, the equity in your home is a valuable asset. And current low interest rates might give you an opportunity to pay off your home more quickly. Here are some ideas to consider.

Enjoy Lower Expenses

If you are happy with your home and don't need to tap the equity, living free of a monthly mortgage could make a big difference in stretching your retirement dollars. It's almost as if you had saved enough extra to provide a monthly income equal to your mortgage. You still have to pay property taxes and homeowners insurance, but these expenses are typically smaller than a mortgage payment.

Consider Downsizing

If you sell your home and purchase another one outright with cash to spare, the additional funds could boost your savings and provide additional income. On the other hand, if you take out a new mortgage, you may set yourself back financially. Keep in mind that condominiums, retirement communities, and other planned communities typically have monthly homeowners association dues. On the plus side, these dues generally pay for maintenance services and amenities that could make retirement more enjoyable.

Borrow on Equity

If you stay in your home and want money for a specific purpose, such as remodeling the kitchen or fixing the roof, you might take out a home-equity loan. If instead you'll need to access funds over several years, such as to pay for college or medical expenses, you may prefer a home-equity line of credit (HELOC).

Home-equity financing typically has favorable interest rates because your home secures the loan. However, you are taking on another monthly payment, and the lender can foreclose on your home if you fail to repay the loan. In addition, you may have to pay closing costs and other fees to obtain the loan. Interest on home-equity loans and HELOCs is typically tax deductible if the proceeds are used to buy, build, or substantially improve your main home, but is not tax deductible if the proceeds are used for other expenses.

Refinance

With mortgage rates near historic lows, you might consider refinancing your home at a lower interest rate. Refinancing may allow you to take some of the equity out as part of the loan, but of course that increases the amount you borrow. While a refi loan may have a lower interest rate than a home-equity loan or HELOC, it might have higher costs that could take some time to recoup. And a new loan comes with a new amortization schedule, so even with lower rates, a larger portion of your payment may be applied to interest in the early years of the loan. Refinancing might be a wise move if the lower rate enables you to pay off a new mortgage faster than your current mortgage.

Paying Off the Mortgage

The percentage of homeowners with a primary regular mortgage declines steadily with age.



Primary regular mortgage statistics include home-equity lump-sum mortgages but not HELOCs or reverse mortgages.

Source: 2019 American Housing Survey, U.S. Census Bureau, 2020

New Changes to College Financial Aid and Education Tax Benefits

In late December 2020, Congress passed the Consolidated Appropriations Act, 2021, another relief package in response to the pandemic. The bill included several provisions related to education, including \$22.7 billion for colleges and universities. Here are some key highlights.

Simplified FAFSA. The bill accomplishes the long-held bipartisan objective of simplifying the Free Application for Federal Student Aid, or FAFSA, starting with the 2023-2024 school year. For example, the legislation significantly reduces the number of overall questions (including eliminating questions about drug convictions and Selective Service status); makes the income protection allowance more favorable for parents and students, which will allow more income to be shielded from the formula; increases the income threshold (from \$50,000 to \$60,000) to qualify for the simplified needs test, an expedited formula in the FAFSA that doesn't count family assets; and widens the net of students eligible for a Pell Grant.

However, the FAFSA will no longer divide a parent's assessment by the number of children in college at the same time. This change has the potential to significantly reduce the amount of financial aid offered to middle- and high-income families who have multiple children in college at the same time.

Goodbye EFC terminology. In the future, the expected family contribution (EFC) will be referred to

as the student aid index, or SAI, in an attempt to more accurately reflect what this number represents: a yardstick for aid eligibility rather than a guarantee of what families will pay (families often pay more than their EFC amount).

Expanded Lifetime Learning credit. The bill increased the income limits necessary to qualify for the Lifetime Learning credit, an education tax credit worth up to \$2,000 per year for courses taken throughout one's lifetime to acquire or improve job skills. Starting in 2021, a full credit will be available to single filers with a modified adjusted gross income (MAGI) below \$80,000 and joint filers with a MAGI below \$160,000 (the credit phases out for single filers with incomes between \$80,000 and \$90,000 and joint filers with incomes between \$160,000 and \$180,000). These are the same income limits used for the American Opportunity credit. To accommodate an expanded Lifetime Learning credit, Congress repealed the deduction for qualified college tuition and fees for 2021 and beyond.

Employer help with student loan repayment. The bill extended a provision allowing employers to pay up to \$5,250 of employees' student loans on a tax-free basis for another five years. This provision, included in the Consolidated Aid, Relief, and Economic Security (CARES) Act, would have expired at the end of 2020.

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