March 2021

Retirement Planning Insights

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Up Front

A Spring awakening…in more ways than one

Now that it's March, Spring is almost here!

I know 2020 technically ended two months ago, but it doesn't feel like it. Maybe it's because the health statistics belying the COVID-19 pandemic got worse, not better, after December. Or maybe it's because February seemed to be an especially cruel month of winter weather for much of the country. Or maybe it's both.

While snow is common here in the Northeast, February was a doozy. As of the writing of this newsletter, this was one of the top five most snow-filled Februaries on record in New Jersey. Below is a picture of my back deck showing about 20" of snowfall from a single storm. And then we had a few additional storms that collectively brought another foot and a half…yuck. I'll be happy to see all of this mess gone soon!

I like March. The obvious reason is because the weather here starts to turn for the better. And it's usually the first month of the year in which I wear shorts and unveil my pasty white legs for the season.

This March is special though. While it's clear the pandemic is still far from over, there is now at least real reason for hope as it seems clear we're starting to work toward getting back to normal…whatever that's going to look like.

Shifting gears - March also means tax return season is in full swing. By now, most of you will have all the documents needed to do your taxes. Don't delay in preparing and filing your return. Filing as soon as reasonably possible can help a would-be fraudster from filing a fake return on your behalf.

Happy Spring all!

-Andy

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Retirement Planning News

Each state's tax-friendliness toward retirees

On February 10, 2021, Kiplinger published an article titled, **"Taxes in Retirement: How All 50 States Tax Retirees."**

I generally avoid articles that attempt to rank the retirement-friendliness of states. A lot of time, such articles are nothing more than clickbait garbage. Furthermore, rankings will drastically vary across different media outlets (and even vary year-to-year within the same outlet!)

I like the above article though because it doesn't attempt to numerically rank each state's retirement tax-friendliness. Instead, it simply summarizes the key retirement-related taxes of each state and gives each state a category of either "not tax-friendly," "least tax-friendly," "mixed," "tax-friendly" or "most tax-friendly."

If you're like most people deciding where to retire, your decision will likely be driven by proximity to family, weather, accessibility to good health care, availability of culture/activities and cost-of-living, part of which is how tax-friendly the state is.

The obvious state taxes are income taxes. All else equal, the lower the income taxes, the better. But income taxes aren't the only form of taxes retirees need to consider.

Other important state-specific taxes are:

- **Property tax** – How much tax you have to pay based on the value of real estate you own
- **Sales tax** – How much tax you have to pay based on the value of goods and services you purchase or use
- **Estate tax** – After you die, how much tax your estate has to pay based on the size of your estate
- **Inheritance tax** – After you die, how much tax your estate has to pay based on who inherits your estate
- **Automobile tax** – How much tax you have to pay to have a car; often based on the value of your car

The article does a great job of objectively summarizing each of these key retiree taxes for every state. If you're thinking about relocating and taxation is one of your considerations, this article is worth the read!

Practical Retirement Planning

The pros and cons of "interval funds"

You may or may not have heard of "interval funds" before.

On the surface, interval funds look like mutual funds in that they are both SEC-regulated pooled investment vehicles that allow investors to buy shares of a fund that in turn uses investors' money to buy a big collection of different investments.

Like mutual funds, interval funds can be purchased on a daily basis and are denoted by five-digit "tickers" that end in the letter "X."

The selling point of interval funds is that they typically offer a higher dividend or interest yield than mutual funds. Additionally, many interval funds claim to be able to provide total returns that are uncorrelated to those of traditional asset classes. In other words, the returns of interval funds may be unrelated to the returns of stocks and bonds, which means interval funds can add diversity to your investment portfolio.

Interval funds attempt to achieve these things by investing in non-traditional assets such as physical buildings, private loans, reinsurance, non-public bonds, etc.

However, interval funds can come with steep costs. In addition to fees that are higher than those of most mutual funds, there are SIGNIFICANT restrictions around getting your money out of interval funds.

Whereas most mutual funds have annual “expense ratios” that are well below 1% per year, it’s common for interval funds to have all-in annual fees between 2 to 3%.

With regards to redemptions, virtually all mutual funds allow you to completely sell out of your holding within one business day. With interval funds, you’re only allowed to request redemptions at certain “intervals;” typically once every three, six or 12 months.

Additionally, at each redemption interval, the funds restrict aggregate redemptions to between 5-25%. In other words, if every investor in a given interval fund requests to completely redeem their holdings on a certain interval date, it’s possible they’ll all only get 5% of their shares redeemed! And then they can similarly have their redemptions restricted at each subsequent redemption interval. Do the math; it can potentially take YEARS to completely get out of an interval fund.

Interval funds aren’t necessarily good or bad. Yes, they may indeed provide relatively good returns that are uncorrelated to those of the stock or bond markets…but maybe they won’t. For example, there are many real estate-focused interval funds whose average annual returns since inception are flat, at best.

Before purchasing an interval fund, be certain you’re willing and able to leave the money invested for potentially many years. In other words, consider interval funds VERY long-term investments. Just because they look and smell like “normal” mutual funds doesn’t mean they are.

For more information on interval funds, check out my recent video: