December 2020

Financial Preparedness for the Months Ahead

By Lance C. Steiner, CFP® and Valerie L. Harman, CPA, CFP® | Buckingham Advisors

Usually by this time of year vacations are over, children and grandchildren are settled back into school, and the focus begins to shift toward the upcoming holidays. However, as we are all reminded daily, 2020 has been anything but an ordinary year. Many individuals find themselves asking what they should be doing right now to plan for the months ahead.

There is no way to know with certainty what will happen between now and the end of the year, but there are several things you can control to better position yourself for these times of uncertainty.

- **Review your emergency savings**
  For individuals in their earning and accumulating years, it is important to establish emergency savings to cover cash needs in case of an unforeseen event. A rule of thumb is to have at least three months' worth of expenses in emergency savings for a two-earner family, or six months for a single earner; adjust this rule of thumb for your personal circumstances. Emergency savings should be in an interest-earning account and easily accessible with no penalty, such as a bank savings or a money market account.

- **Consider refinancing your home mortgage or getting a home equity line of credit**
  Current mortgage interest rates are extraordinarily low. If you plan to stay in your home for the near future, consider opportunities to refinance to a lower rate. Be sure to compare closing costs between lenders and consider the time it would take to recover closing costs with a lower payment. We suggest refinancing to a new term that is about equivalent to the remaining years of your current mortgage. Likewise, this may be a good time to secure a home equity line of credit (HELOC). Keep in mind that 2018 tax law changes made interest on a HELOC nondeductible for HELOC funds used for anything other than to purchase, build or improve your home.

- **Review your 401(k), 403(b) or employer provided retirement plan allocation**
  Typically, employer provided retirement plans have a list of available mutual funds and/or life cycle funds participants can select for their investment allocation. Many of the available funds are index funds, which means they track an index such as the S&P 500. If you do not regularly rebalance your allocation, you may end up having more exposure to equities and the stock market than you realize. In times of uncertainty, it is especially important to ensure the allocation is in line with your risk tolerance. We encourage you to review your current investment allocation and contact our office to discuss it with your advisor.

- **Consider a Roth conversion**

It may be beneficial to convert a portion of your traditional IRA or SEP IRA to a Roth IRA. Even if tax rates do not increase following this election, the U.S. debt is nearing $30 trillion and additional coronavirus aid may follow, so there is a widespread expectation that taxes will eventually increase. Thus, it may be beneficial to pay tax now on a Roth conversion to realize tax-free growth with qualified tax-free distributions in retirement. This may also be an opportunity for generational planning if you have a substantial amount in your IRA and your beneficiaries may be in a higher tax bracket. Please consult your financial planner or tax advisor to discuss this opportunity.

- **Finalize 2020 tax planning and establish a plan for 2021**
  During this time of year, it is common practice for our firm to review capital gains and IRA distributions to look for tax planning opportunities. In some situations, we look for opportunities to take extra capital gains at 0% or IRA distributions to increase income in the lower tax brackets. In many cases it is beneficial to try to increase your income to the top of your current tax bracket if you expect your income to be similar or higher in the future. Not only is it a good time to finalize plans for the current year, but it is important to establish a plan for the coming year. This includes reviewing retirement plan deferral percentages, tax withholding elections, and potential changes in your individual circumstances. It would be a good idea to contact your tax advisor now to discuss the situation, especially if you fall into a targeted income category.

Please take some time to review these planning strategies and prepare for the coming weeks and months. Every situation is different, so please reach out to the Buckingham Advisors team to discuss these items further.