HORIZON
WEALTH STRATEGIES, LLC
FINANCIAL NEWS DIGEST

The Pros And Cons Of Roth Conversions 2

Living At Home Can Put Young Adults On The Right Financial Path 3

IRS Issues New RMD Tables For IRAs 4

MONEYLINE

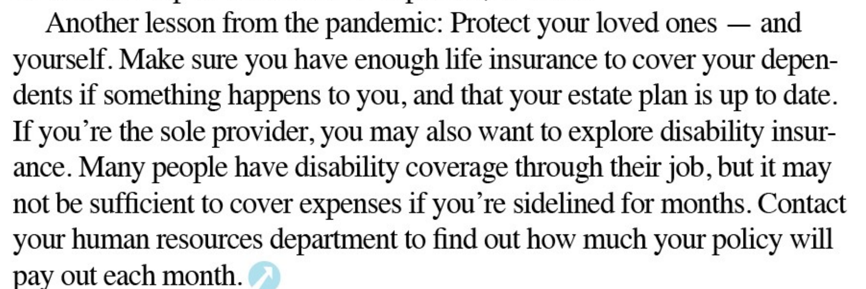
Hope For The Best, Plan For The Worst

Courtesy of Horizon Wealth Strategies, LLC

Columnist Sandra Block said, "If adversity builds strength, many of us will start 2021 with the muscles of a professional bodybuilder." 2020 delivered a flurry of punches: a pandemic, a recession, a volatile stock market and a crazy election.

However, the calamitous year also provided valuable financial lessons. Because while pandemics are rare, personal setbacks are distressingly common. Your roof could fall in. A family member could become seriously ill. You could lose your job.

An emergency fund is your first line of defense against such disasters. Three to six months of expenses may be enough if you're in a dual-income household. If you are the sole wage earner, you may need to save up to 12 months of expenses, or more.



Another lesson from the pandemic: Protect your loved ones — and yourself. Make sure you have enough life insurance to cover your dependents if something happens to you, and that your estate plan is up to date. If you're the sole provider, you may also want to explore disability insurance. Many people have disability coverage through their job, but it may not be sufficient to cover expenses if you're sidelined for months. Contact your human resources department to find out how much your policy will pay out each month.

(888) 549-1856
www.horizonwealthstrategies.com

Mark D. Olson, CFP®, MSFS, CLU®, ChFC®
Founder & Principal

Michael A. Ferrara, LUTCF
Financial Planner

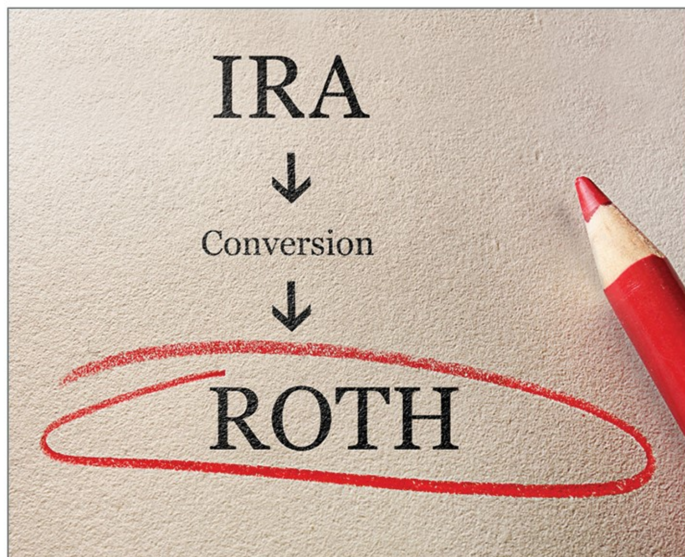
Irene Stolte, CLTC, LUTCF
Financial Adviser

Matthew Kennedy, CLTC
Financial Adviser

Puppy-selling scams have proliferated this year, warns canine expert Brandi Hunter. Scammers are taking advantage of pandemic-driven dog demand by creating websites that mimic legitimate dog-breeder sites. *Self-defense:* Select text from customer reviews on the seller's site, and paste it into a search engine to check whether it was lifted from a legitimate site. Ask for a video call where you can see both seller and puppy. Pay with a credit card, not a wire transfer.
Source: AKC.org

Storm damage that your insurance will and won't cover: Most homeowner's policies will cover damage from tornados, hurricanes, severe storms, rain, wind and fire. But check your policy to be sure, since some policies exclude weather that is common in your area, such as windstorms in coastal states. Most states have special programs for you to purchase insurance covering such exclusions. What homeowner's policies almost never cover are flooding or "earth movement" – earthquakes, mudslides, and sinkholes. That coverage must be bought separately. You can get flood insurance from the National Flood Insurance Program or a private insurer, and you can buy earthquake insurance from private companies or, if your home is in California, from the California Earthquake Authority.
Source: USAToday.com

"A bank is a place that will lend you money if you can prove that you don't need it."
—Bob Hope



The Pros And Cons Of Roth Conversions

By Sandra Block, Kiplinger's Personal Finance

Converting a traditional IRA to a Roth can shield your retirement savings from future tax increases, but there are pitfalls and trapdoors too.

You'll owe taxes on a conversion, and the up-front tax bill could be higher than you expected — particularly if the conversion pushes you into a higher tax bracket. If your income tax rate drops significantly after you retire, the tax advantages could be modest or nonexistent. And you must comply with multiple rules and regulations to avoid running afoul of the IRS.

When you convert money in a traditional IRA to a Roth, you must pay taxes on the amount you convert (although part of the conversion will be tax-free if you've made nondeductible contributions to your IRA).

Once you've converted, all withdrawals are tax-free as long as you are 59 1/2 or older and have owned a Roth for at least five years. Unlike traditional IRAs and other tax-deferred accounts, Roths aren't subject to required minimum distributions at age 72. So, if you don't need the money, you can let it continue to grow, tax-free.

Many planners believe the period between the time you retire and the time you turn 72 is the sweet spot for Roth conversions. There's a good chance your income will drop after you stop working, and until you are required to start taking distributions, you have some control over the amount of income you receive each year. That will help you lower the tax bill on your Roth conversion.

But even within that time period, there are potentially negative consequences to a conversion, particularly for retirees. What to watch out for:

Medicare high-income surcharge. The Medicare Part B premium is tied to income. While the standard premium that most people pay is $148.50 per month in 2021, higher-income enrollees may pay $208 to $505 per month. A Roth conversion will inflate your income, triggering an increase in premiums for Part B as well as Medicare Part D, which covers prescription drugs.

Keep in mind, though, that a Roth conversion could offset the costs of Medicare premiums in the future, says Ed Slott, founder of IRAHelp.com. Withdrawals from a Roth won't affect the formula used to calculate surcharges.

Social Security benefits. The additional income from a Roth conversion could increase the portion of Social Security benefits that are subject to federal income taxes. Up to 85% of your Social Security benefits are taxable, depending on income from other sources, such as a job, a pension, withdrawals from an IRA or a Roth conversion.

Taxes on investment income. Most taxpayers pay a 15% capital gains rate on income from long-term capital gains and qualified dividends. If your income is low enough — up to $40,400 in 2021, or $80,800 for married couples who file jointly — you qualify for a 0% rate on capital gains, which can be a sweet deal for retirees. But because a Roth conversion will increase your taxable income, taxes on your investment income could go up too. In any case, before taking any action, be sure to consult a tax advisor.

Living At Home Can Put Young Adults On The Right Financial Path

By Emma Patch, Kiplinger's Personal Finance

As of July 2020, more than half of young adults between the ages of 18 and 29 were living with one or both parents, the highest percentage since the Great Depression, according to Pew Research Center. While some may fear for that generation's financial independence, there are a lot of advantages to living rent-free with Mom and Dad.

Ideally, living at home should provide a way to improve your financial well-being and lay the groundwork for future success. A common rule of thumb for budgeting is to spend no more than 30% of your after-tax income on housing, says Michaela McDonald, a certified financial planner based in New York City.

Depending on what part of the country you live in, that can be a difficult standard to meet. But if you're able to keep your job after you move in with your parents, you've freed up that money to put toward other goals, such as saving for retirement and paying off debt. And depending on whether you pay rent and other expenses to your parents, you might also save on utilities, Wi-Fi and cable. Many parents throw in three square meals for free.

All that passive saving is well and good, but it can also be unmotivating, so you should have concrete financial goals when you move back home. "Paying off debt is first and foremost in the order of operations when moving in with the family," says Andrew Westlin, a CFP based in Annapolis, Maryland.

Start by taking a look at any high-interest-rate debt you may have, such as credit cards or personal loans. Use the money that would be going to other living expenses to pay those loans off as fast as possible. If you have student loans, make sure you're at least making the minimum payments, Westlin says.

Don't ignore retirement saving. If you're working, and your employer matches 401(k) contributions, make sure you're saving enough to get the full employer match. If you don't have a 401(k), try to put at least something away in another financial vehicle. If you can save just $100 a month toward retirement, that money could grow substantially over the years. "It seems so far off, but your future self will definitely thank you," McDonald says.

Next, start building an emergency fund. Generally, setting aside enough money to cover three to six months of expenses is a good way to establish a healthy safety net, Westlin says. That exercise can also help you set a timeline: When you've reached your savings goal, that might be the signal that it's time to fly the nest.

"I finally put something aside for my retirement. I put aside my plans to retire."

Best cars for teens under $20,000. When car-shopping for a teenage driver, parents want the best balance between price and safety. Teens can be risky drivers due to immaturity, inexperience and social pressures. Their rates of crashes are about four times those of people age 20 and older. Look for a highly rated used vehicle within your budget that balances accident avoidance, crash protection, performance and reliability. Here are the top choices according to Consumer Reports and the Insurance Institute for Highway Safety: *Small car*—Mazda 3 (2014 or newer, $7,000)…*mid-sized car*—Subaru Legacy (2013 or newer, $7,600)…*large car*—Hyundai Genesis (2016, $18,000)…*small SUV*—Mazda CX-5 (2014 or newer, $8,200)…*midsized SUV*—GMC Terrain (2014, 2016 or newer, $9,400)…*minivan*—Toyota Sienna (2015 or newer, $11,900).

Source: ConsumerReports.org

COVID-19 has Americans thinking differently about wealth. In a pre-COVID survey, participants said it would take $934,000 to be financially comfortable and $2.6 million to be considered wealthy. Now they say financial comfort requires $655,000 and wealth comes at just $2 million.

Source: USAToday.com

"If you know how to spend less than you get, you have the philosopher's stone."

—Benjamin Franklin

HORIZON
FINANCIAL NEWS
DIGEST

21 Maple Street
Somerville, NJ 08876

This third party newsletter is being provided as a courtesy by Mark Olson, Irene Stolte, Michael Ferrara, and Matthew Kennedy Agents for New York Life Insurance Company, Registered Representatives offering securities through NYLIFE Securities LLC, Member FINRA/SIPC. A Licensed Insurance Agency.
Mark Olson, Irene Stolte, Michael Ferrara, and Matthew Kennedy are Financial Advisors offering advisory services through Eagle Strategies LLC, a Registered Investment Adviser. NYLIFE Securities, LLC and Eagle Strategies, LLC. are New York Life companies. Horizon Wealth Strategies, LLC is not owned or operated by NYLIFE Securities LLC., or their affiliates. This publication is provided to our readers as an informational source only. The ideas, opinions and concepts expressed here should not be construed as specific tax, legal, financial or investment advice. You should consult your professional advisers regarding your particular situation.

IRS Issues New RMD Tables For IRAs

By Elliott Raphaelson, Tribune Content Agency

There have been many changes recently in the tax laws that affect retirement accounts and their associated required minimum distributions (RMDs). Specifically, the CARES Act enacted last spring waived RMDs in 2020; the Secure Act increased the starting age of RMDs to 72.

There are now different RMD rules for 2020, 2021 and 2022. For 2020, RMDs were waived by the CARES Act. For 2021, RMDs are once again be due, and they are calculated using life expectancy tables currently in place. For 2022, the new life expectancy tables will apply. The new tables in effect for 2022 will result in somewhat smaller RMDs, reflecting longer life expectancies.

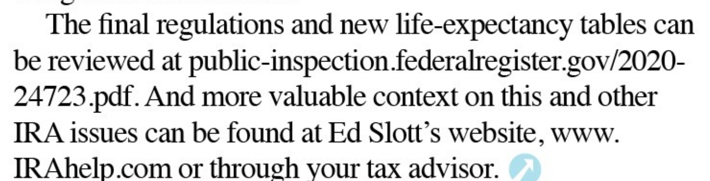
Non-spouse beneficiaries who inherit before January 1, 2022 are required to reset their 2022 RMD. Those who have a required beginning date of April 1, 2022 should use the existing Uniform Lifetime Table for the 2021 RMD (even if delayed into 2022) and the new Uniform Lifetime Table for 2022.

All three RMD life expectancy tables were revised:

■ The Uniform Lifetime Table is used to calculate lifetime RMDs for unmarried IRA owners, married owners whose spouses aren't more than 10 years younger, and married owners whose spouses aren't the sole beneficiaries of their IRAs.

■ The Joint Life and Last Survivor Expectancy Table is used instead of the Uniform Lifetime Table when a spouse is the sole beneficiary and is more than 10 years younger than the IRA owner or plan participant.

■ The Single Life Expectancy Table, according to the SECURE Act, is used only to calculate RMDs for "eligible designated beneficiaries."



The final regulations and new life-expectancy tables can be reviewed at public-inspection.federalregister.gov/2020-24723.pdf. And more valuable context on this and other IRA issues can be found at Ed Slott's website, www.IRAhelp.com or through your tax advisor.