Horizons Insurance

Planning Your Future

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INSURANCE & FINANCIAL SERVICES

Dear clients and friends,

"The Only constant in life is change" said Heraclitus, and man he was right!! Everything in our lives was changing at a very fast pace due to advancements in technology but the pandemic has definitely accelerated this trend. From the way we work, to the way we communicate with our friends and family, how our kids are learning and how we are investing our money....this has affected everything we do. In most cases, it is overwhelming to keep up with all these changes, especially to the older generations.

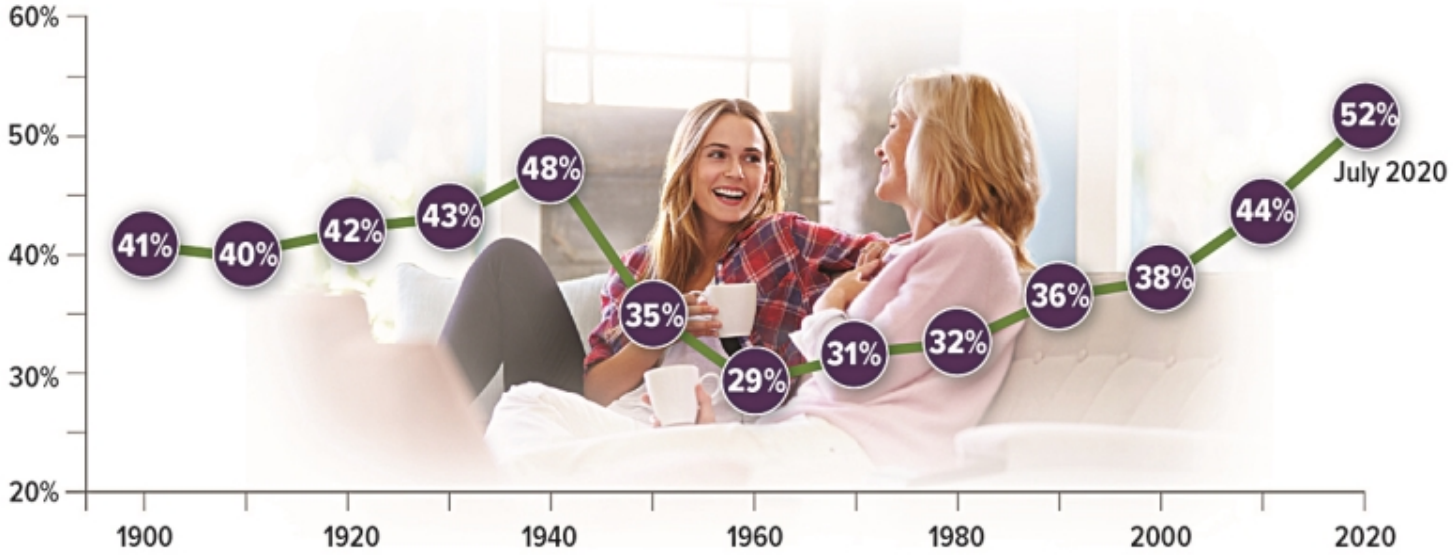
The key here is to keep an open mind and try to learn new skills that will help you survive and possibly thrive in this new digital world. Stop wasting time, educate yourselves, don't believe everything you read in social media. Find mentors or advisors that can help you and guide you in all aspects of your life.

We are here to help you with all your insurance and financial needs. Do not hesitate to contact us. Have a great month!!

Mauricio Giraldo.

Majority of Young Adults Living at Home

In 2020, a record number of 18- to 29-year-olds lived at home with their parents. In July, 52% of young adults were living at home, surpassing the previous high of 48% recorded in 1940 at the end of the Great Depression. This record return to the family home has been driven by the coronavirus pandemic and exacerbated by the overall economic downturn, record-low housing inventory along with a shortage of affordable entry-level homes, and high levels of student debt. The number of young adults living with their parents grew across the board for all demographic groups and regions of the country.



Source: Pew Research Center, 2020

Key Retirement and Tax Numbers for 2021

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2021.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2021 is $15,000, the same as in 2020.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2021 is $11,700,000, up from $11,580,000 in 2020.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2021, the standard deduction is:

- $12,550 (up from $12,400 in 2020) for single filers or married individuals filing separate returns
- $25,100 (up from $24,800 in 2020) for married individuals filing joint returns
- $18,800 (up from $18,650 in 2020) for heads of households

The additional standard deduction amount for the blind or aged (age 65 or older) in 2021 is:

- $1,700 (up from $1,650 in 2020) for single filers and heads of households
- $1,350 (up from $1,300 in 2020) for all other filing statuses

Special rules apply if you can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2021 (the same as in 2020), with individuals age 50 and older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges. (The limit on nondeductible contributions to a traditional IRA is not subject to phase-out based on MAGI.)

MAGI Ranges: Contributions to a Roth IRA

	2020	2021
Single/Head of household	$124,000–$139,000	$125,000–$140,000
Married filing jointly	$196,000–$206,000	$198,000–$208,000
Married filing seperately	$0–$10,000	$0–$10,000

MAGI Ranges: Contributions to a Traditional IRA

	2020	2021
Single/Head of household	$65,000–$75,000	$66,000–$76,000
Married filing jointly	$104,000–$124,000	$105,000–$125,000

The 2021 phaseout range is $198,000–$208,000 (up from $196,000–$206,000 in 2020) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a plan.

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2021 (the same as in 2020); employees age 50 and older can defer up to an additional $6,500 in 2021 (the same as in 2020).
- Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2021 (the same as in 2020), and employees age 50 and older can defer up to an additional $3,000 in 2021 (the same as in 2020).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,200 in 2021 (the same as in 2020) is taxed using the parents' tax rates.

Sequence Risk: Preparing to Retire in a Down Market

"You can't time the market" is an old maxim, but you also might say, "You can't always time retirement."

Market losses on the front end of retirement could have an outsize effect on the income you receive from your portfolio by reducing the assets available to pursue growth when the market recovers. The risk of experiencing poor investment performance at the wrong time is called *sequence risk* or *sequence-of-returns risk.*

Dividing Your Portfolio

One strategy that may help address sequence risk is to divide your retirement portfolio into three different "baskets" that could provide current income, regardless of market conditions, and growth potential to fund future income. Although this method differs from the well-known "4% rule," an annual income target around 4% of your original portfolio value might be a reasonable starting point, with adjustments based on changing needs, inflation, and market returns.

Basket #1: Short term (1 to 3 years of income). This basket holds stable liquid assets such as cash and cash alternatives that could provide income for one to three years. Having sufficient cash reserves might enable you to avoid selling growth-oriented investments during a down market.

Basket #2: Mid term (5 or more years of income). This basket — equivalent to five or more years of your needed income — holds mostly fixed-income securities, such as intermediate- and longer-term bonds, that have moderate growth potential with low or moderate volatility. It might also include some lower-risk, income-producing equities.

The income from this basket can flow directly into Basket #1 to keep it replenished as the cash is used for living expenses. If necessary during a down market, some of the securities in this basket could be sold to replenish Basket #1.

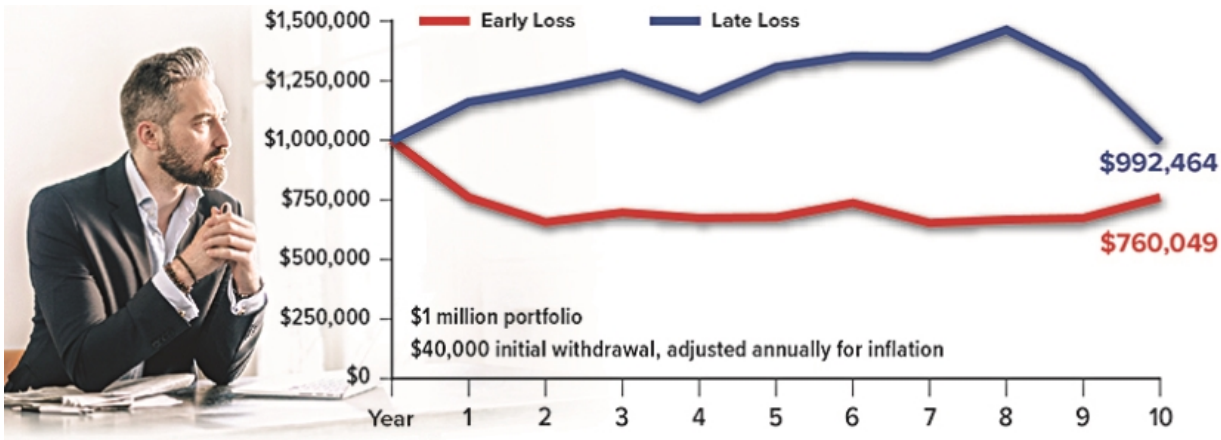
Basket #3: Long term (future income). This basket is the growth engine of the portfolio and holds stocks and other investments that are typically more volatile but have higher long-term growth potential. Investment gains from Basket #3 can replenish both of the other baskets. In a typical 60/40 asset allocation, you might put 60% of your portfolio in this basket and 40% spread between the other two baskets. Your actual percentages will depend on your risk tolerance, time frame, and personal situation.

With the basket strategy, it's important to start shifting assets before you retire, at least by establishing a cash cushion in Basket #1. There is no guarantee that putting your nest egg in three baskets will be more successful in the long term than other methods of drawing down your retirement savings. But it may help you to better visualize your portfolio structure and feel more confident about your ability to fund retirement expenses during a volatile market.

All investments are subject to market fluctuation, risk, and loss of principal. Asset allocation does not guarantee a profit or protect against investment loss. The principal value of cash alternatives may be subject to market fluctuations, liquidity issues, and credit risk. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve higher risk.

Early Losses

A significant market downturn during the first two years of retirement could make a big difference in the size of a portfolio after 10 years, compared with having the same downturn at the end of the 10-year period. Both scenarios are based on the same returns, but in reverse order.



Sequence of returns

Year	Early loss	Late loss
1	–20%	20%
2	–8%	8%
3	12%	9%
4	3%	–5%
5	7%	15%
6	15%	7%
7	–5%	3%
8	9%	12%
9	8%	–8%
10	20%	–20%

Assumes a $40,000 withdrawal in Year 1, with subsequent annual withdrawals increased by an inflation factor of 2%. This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary.

Tips to Help Control Your Finances During the Pandemic

The coronavirus pandemic has strained the finances of many U.S. households. In an August 2020 survey, 25% of adults said someone in their household had experienced the loss of a job due to the outbreak. Even among those who did not lose a job, 32% said someone in their household has had to reduce hours or take a pay cut due to the economic fallout from the pandemic.[1] During these times of financial turmoil and stress, it's more important than ever to take control of your financial situation. Here are some tips to get started.

1. Make sure your budget is on track. A solid budget is the centerpiece of any good financial plan because it will give you a clear picture of how much money is coming in and how much is going out. Hopefully, you've been able to stay the course during the pandemic and your budget is still on track. If you've experienced a loss or reduction in income, you may have to cut back on discretionary spending or look for ways to lower your fixed costs. Budgeting websites and smartphone apps can help you analyze your saving and spending patterns.

2. Maintain healthy spending habits. During the height of the pandemic, your spending habits may have changed dramatically. With restaurants closed, vacations postponed, and events canceled, many Americans found themselves spending less. If you were fortunate enough to save money during the pandemic, keep up the good work. If you spent more than you would have liked (e.g., takeout, online shopping), try to cut back and save what you can. Even small amounts can add up over time.

3. Check your emergency fund. If the pandemic has taught us anything financially, it is the importance of having an emergency fund. If you've had to dip into your cash reserve at some point over the past year to cover expenses, you'll want to work on building it back up. Ideally, you should have at least three to six months of living expenses in your cash reserve. A good way to accumulate emergency funds is to earmark a percentage of your paycheck each pay period. When you reach your goal, you may still want to keep adding money — the more you can save, the better off you could be in the long run.

4. Deal with your debt. It is always important to stay on top of your debt situation and pay down debt from student loans, a mortgage, and/or credit cards as quickly as you can. If the financial impact of the pandemic has made it difficult to manage your debt, contact your lenders to see if they offer COVID-related financial assistance. Many may be willing to work with you by waiving interest and certain fees or allowing you to delay, adjust, or skip some payments.

1) Pew Research Center, 2020

Horizons Insurance and Financial Services, Inc does not provide legal, tax, or variable investment advice.