

Mission Financial Morning Bell

On Point Planning for Your Future



Mission Financial

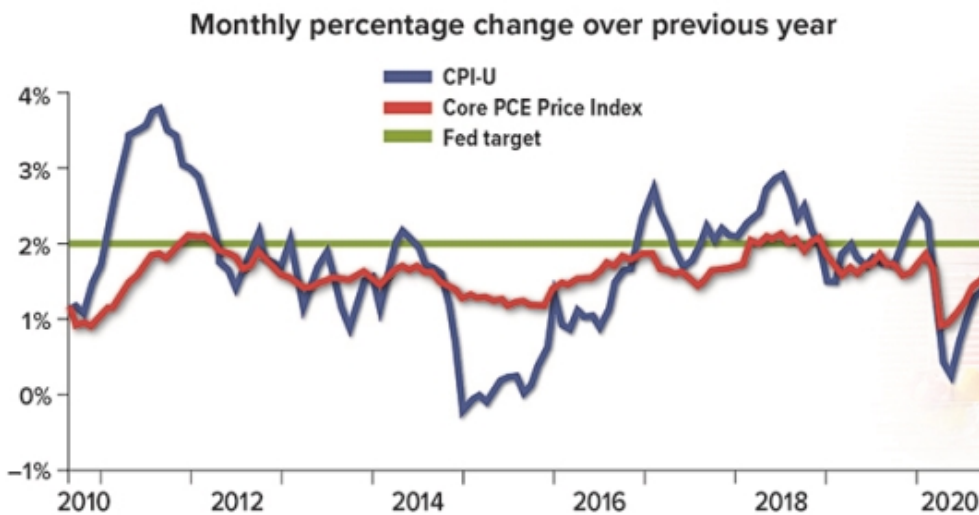
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Welcome to the first Morning Bell of 2021! While the dawning of a new year brings with it thoughts of resolution, there's one thing you can depend on remaining the same – our dedication to helping you achieve your most important financial goals. We will continue to proactively review your portfolio to ensure its alignment with whatever your goals may be- including risk minimization, balance liquidity strategies, and tax considerations. We will continue to communicate information and education as questions and events arise throughout the year. We will continue to be committed to helping you plan well, give generously, and be fulfilled. While we don't have a crystal ball to help us predict what changes *will* come this year, we work hard at Mission financial to help maintain the alignment of your portfolio through all market cycles. We're thankful for the opportunity to serve you, and we're looking forward to making this year a wonderful one!

Different Inflation Measures, Different Purposes

The inflation measure most often mentioned in the media is the Consumer Price Index for All Urban Consumers (CPI-U), which tracks the average change in prices paid by consumers over time for a fixed basket of goods and services. In setting economic policy, however, the Federal Reserve Open Market Committee focuses on a different measure of inflation — the Personal Consumption Expenditures (PCE) Price Index, which is based on a broader range of expenditures and reflects changes in consumer choices. More specifically, the Fed focuses on "core PCE," which strips out volatile food and energy categories that are less likely to respond to monetary policy. Over the last 10 years, core PCE prices have generally run below the Fed's 2% inflation target.



Sources: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis, 2020 (data for the period September 2010 to September 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 separately	\$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 outside 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.

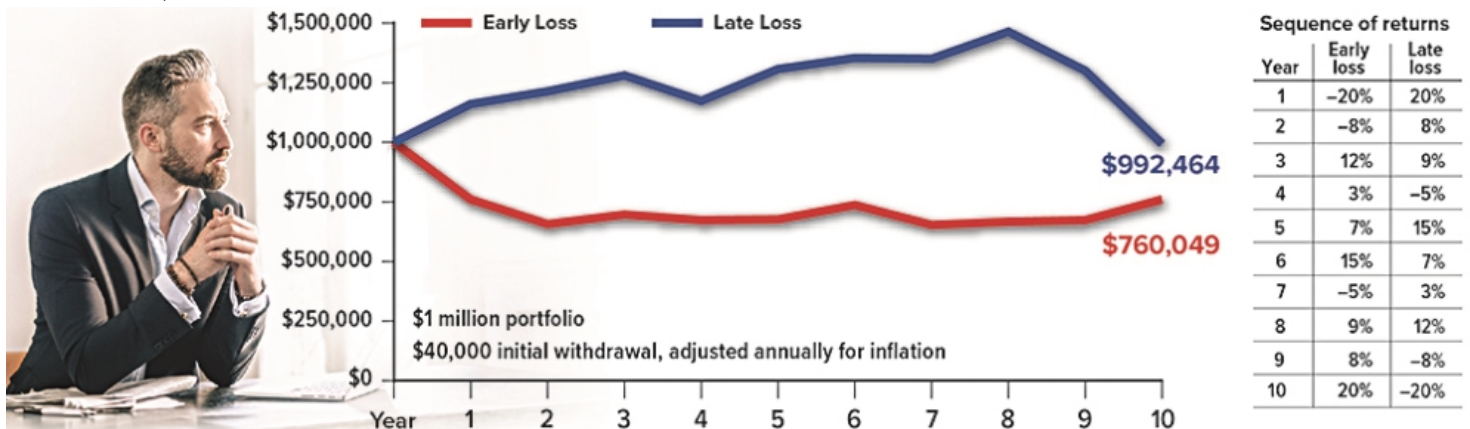
Basket #3: Long term (future income). This basket is the growth engine of the portfolio and holds stocks and other investments that are typically more volatile but have higher long-term growth potential. Investment gains from Basket #3 can replenish both of the other baskets. In a typical 60/40 asset 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.



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.

Umbrella Insurance Offers Extra Liability Coverage

Accidents can happen, no matter how careful you are. Even if you make every effort to help ensure that your house and the surrounding area are safe for visitors, rain, snow, or ice can cause slippery stairs and walkways. You might face an increased risk of having a liability claim filed against you if you have a dog, a swimming pool, a trampoline, employ workers in your home, or own a rental property. Or you could be held responsible for a serious auto accident — a special concern if you have a teenage driver.

American society is litigious, and some legal judgments seem excessive. Standard homeowners and auto insurance policies generally cover personal liability, but you may not have enough coverage to protect your income and assets in the event of a high-dollar judgment. That's when umbrella insurance could be a big help, providing additional coverage, up to policy limits.

On top of the liability coverage amount, an umbrella policy may help pay legal expenses and compensation for time off from work to defend yourself in court. It might also cover situations not included in standard homeowners policies, such as libel, slander, invasion of privacy, and defamation of character.

Umbrella insurance is not just for wealthy households; it is also appropriate for middle-income families with substantial home equity, retirement savings, and current and future income that could be used to satisfy

a large jury award. (Home equity might be protected, at least in part, by state law. Qualified retirement plan assets may have some protection from creditors under federal and/or state law, depending on the plan and jurisdiction, but you would still be liable for any judgments.)



Protecting yourself with an umbrella policy could help avoid expensive consequences down the road.

Although coverage and costs vary by insurer, you can typically obtain \$1 million in coverage for \$300 or less per year; higher coverage amounts can be even more cost-effective. Before adding umbrella insurance, however, you generally must purchase a certain amount of liability coverage on your homeowners and auto policies (typically \$300,000 and \$250,000, respectively), which serve as a deductible for the umbrella policy.¹

Your insurer can help you determine how much current liability protection you have, and how much more you can purchase. It might be helpful to consider your assets, potential exposure, and what you consider to be an acceptable risk.

1) Insurance Information Institute, 2020

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