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Lynn's Top Five

By Lynn Ballou CFPr

Lynn Ballou is a CERTIFIED FINANCIAL PLANNER T professional and Regional Director with EP Wealth Advisors, a Registered Investment Advisory Firm in Lafayette.The review, assessment, and/or opinion expressed in this column are limited to and in association with general financial planning subjects. They are intended to introduce the reader to general financial planning topics. This column should serve as a tool that should assist readers in the development of subsequent discussions with a financial planning professional. Always consult an accountant and/or attorney to assess your individual situation prior to implementing any financial planning strategy, including any strategy directly or indirectly referenced in this column.

I hope Sheryl Crow's lyrics are a truth, that we are a little bit closer. Closer to a cure, to a vaccine, to a recovered economy, to valuing all human life, to empathy. The last time I wrote for this, our wonderful community paper, I was already planning my next column focusing on the provisions of the latest tax legislation, the Secure Act. Well, we can toss that aside for the moment, and focus instead on surviving. This column will focus on some tips and ideas for financial survival, hopefully providing at least one idea for each reader.

1) Adjust new budgets: Not commuting? Not eating out, traveling or meeting up with friends? Take a deep sigh, let it go and instead focus on the opportunity to build or expand that emergency fund, pay down consumer debt, add to building toward financial independence or shorter-term financial needs such as home repairs, a newer car, education expenses.

2) Lower debt costs: There are many debt breaks available from forgiveness to deferral to simple refinancing at lower rates. Whether student loan debt, car loans or mortgages, research your options and make moves to take advantage of what may be the lowest interest rates of several generations to come. And if you need cash due to loss of income, you will find numerous options available including borrowing from your own retirement accounts to accessing government lending programs. Leave no stone unturned and don't delay.

3) Required minimum distributions - yes or no: You are able to step away from any previously "required" minimum distributions from retirement plans (RMDs) this year. And if you already took some and wish you hadn't, you have until Aug. 31 for just this tax year to put the funds back and reverse the distribution so as to preserve your assets and keep your tax burden as low as possible. That said, if you are in a negative income tax bracket, perhaps you might still take some distributions so as not to waste that tax-free withdrawal opportunity. And see the next point regarding another approach if you are in a low or 0% tax bracket.

4) Roth conversions - a unique historic opportunity: It's possible your investments are worth less than you paid for them. It's also possible your income is lower this year than last. If so take a look at the math behind Roth conversions. If you moved $50,000 for example to a Roth IRA from an eligible IRA, you'd pay the taxes on the $50,000 distribution this tax year, however, once the funds are in the Roth IRA, they grow tax free and exempt from RMD's in your life (and if your spouse is your beneficiary his or her life, as well). This works when you have the cash outside the IRA to pay for the taxes due on the conversion. And the neat trick about this is that you can move assets in kind from your IRA to your Roth IRA. If you make these moves when markets are at lows, and move assets that have suffered value loss but that you still want to hold long-term, you are in essence moving a lot more shares to the Roth at that moment than you would have before the virus struck and markets fell substantially. Long term this could be very positively impactful to you, however, absolutely consult with your Tax Pro before proceeding.

5) Tax loss harvesting - If ever there was a time! We've chatted about this before in my column and this is yet another historic opportunity to make lemonade out of lemons by using this tool. Tax loss harvesting involves selling assets with paper losses (in taxable, not retirement accounts) and immediately using the proceeds to replace them with a different asset (can be somewhat similar but not the same) so you aren't out of the market in the event the market charges up in the short run. You can then just keep the new asset you buy and book the capital losses on the asset you are selling to use in the current year against gains, or use up to $3,000 of net losses against other income and carry the rest of your capital losses forward to a future year. If you want to buy back the asset you sold you must wait 31 days to do so or you forfeit the right to the tax loss on the sale. Work closely with your team of professionals including your Certified Financial Planner T to be sure you are implementing a wise plan that works for you correctly.

While I truly hope that this column has highlighted and sparked some helpful planning ideas, I'll close with the most sincere wish that you and your loved ones are, and continue to stay, healthy, safe and able to focus on what matters most.

Reach the reporter at: info@lamorindaweekly.com

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