OnWealth

Financial Advice from Wealth Management Services

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2024

The year when U.S. travel spending is expected to approach pre-pandemic levels

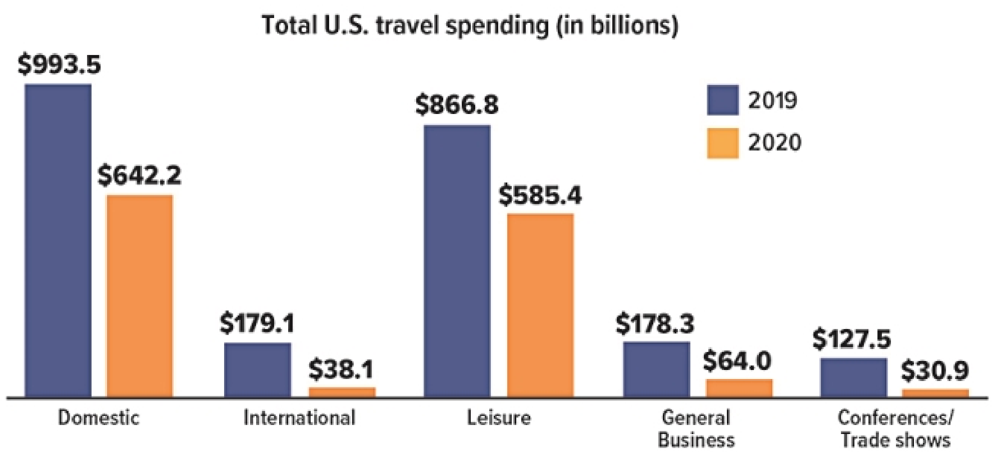
Source: U.S. Travel Association, 2021

COVID-19 Left the U.S. Travel Industry Reeling

The U.S. travel industry's total economic output plummeted 42% in 2020. A full 65% of all jobs lost in the United States were those supported by the travel industry. Perhaps unsurprisingly, the hardest-hit areas were business travel, particularly spending related to conferences, conventions, and trade shows, as well as international travel.

Federal, state, and local government coffers were also strained, as travel-related taxes fell by 34%.

Total travel spending in the United States, accounting for both domestic and international travelers, is expected to rise by 23.6% in 2021.



Source: U.S. Travel Association, 2021

Stock Market Risks in the Spotlight

During March 2021, the widening availability of COVID-19 vaccinations, signs of improving economic conditions, and a third, $1.9 trillion stimulus package brought about more optimistic growth projections. Even though a healthy economy could be good news for many businesses and the financial markets, rising inflation expectations caused a multi-week sell-off in U.S. government bonds that pushed up longer-term yields and sent the Nasdaq Composite Index into correction territory on March 8, 2021.[1]

Promising a patient approach, the Federal Reserve stated that it would not raise interest rates until the labor market fully recovers and inflation moderately exceeds the 2% target for some time.[2] But some investors worry that sharply higher inflation could force policymakers to boost rates sooner than originally expected.

Here's a closer look at some specific types of investment risk that could influence individual stock prices and/or cause broader market swings during the second half of 2021.

Inflation and Interest-Rate Fears

Inflation and interest rates are two different but closely related investment risks. The Federal Reserve is tasked with fostering full employment and controlling inflation. One way it balances these two goals is by lowering interest rates to stimulate business activity or raising rates to help slow inflation when the economy is heating up too fast.

High inflation erodes the value of investment returns, but when interest rates rise, bond values fall (and vice versa). These risks are obvious considerations for bond owners, but they also impact stocks. When goods, services, and credit cost more, consumers have less purchasing power, which can hurt company earnings and stock prices as well.

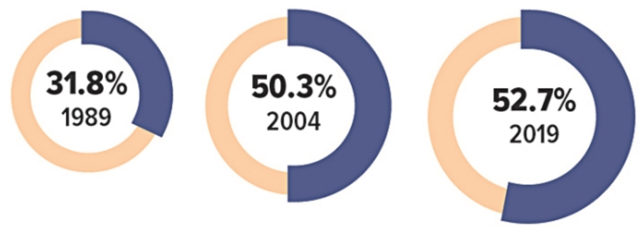
Rising bond yields might continue to have a negative effect on stock values, because as they move up, borrowing costs for most businesses also rise, cutting into profits. Higher yields could also entice risk-averse investors to sell their stocks and buy more stable bonds instead.

Legislative or Regulatory Impacts

Some government actions (such as antitrust lawsuits, higher taxes, and more stringent regulations or standards) make it more difficult and expensive for companies to do business, which can adversely affect their earnings and stock prices. On the other hand, government subsidies and tariffs on foreign products can provide competitive advantages.

The Justice Department, Federal Trade Commission, and numerous states are in the midst of antitrust lawsuits or major investigations into the business practices of several market-dominating tech companies.[3] In another example, the Securities and Exchange Commission is considering new standards for corporate disclosures related to environmental, social, and governance risks.[4]

Percentage of U.S. Households Who Own Stocks*



*Owned directly or indirectly through investment vehicles

Source: Investment Company Institute, 2021 (data from Federal Reserve Board Survey of Consumer Finances)

Event or Headline-Driven Volatility

Headline risk refers to the possibility that events reported in the media could hurt a company's reputation and/or earnings prospects. Troubling news can cause market backlash against a specific company or an entire industry. Companies try to manage this risk through public relations campaigns and other efforts to generate positive news that leaves a good impression on consumers. Events that threaten to disrupt business activity nationwide, regionally, or around the world can cause sudden stock market declines.

The market responds to news, good or bad, almost every day. For this reason, your portfolio should be designed to weather a range of market conditions and have a risk profile that reflects your ability to endure periods of market volatility, both financially and emotionally.

The principal value of bonds may fluctuate with changes in interest rates and market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

1) *The Wall Street Journal,* March 8, 2021

2) Federal Reserve, March 17, 2021

3) Reuters, December 16, 2020

4) *The Wall Street Journal,* February 24, 2021

Tips for Managing an Inheritance

As the beneficiary of an inheritance, you are most likely to be faced with making many important decisions during an emotional time. Short of meeting any required tax or legal deadlines, don't make any hasty decisions concerning your inheritance.

Identify a Team of Trusted Professionals

Tax laws and requirements can be complicated. Consult with professionals who are familiar with assets that transfer at death. These professionals may include an attorney, an accountant, and a financial and/or insurance professional.

Be Aware of the Tax Consequences

Generally, you probably will not owe income tax on assets you inherit. However, your income tax liability may eventually increase. Any income that is generated by inherited assets may be subject to income tax, and if those assets produce a substantial amount of income, your tax bracket may increase. This is particularly true if you receive distributions from a tax-qualified retirement plan such as a 401(k) or an IRA. You may need to re-evaluate your income tax withholding or begin paying estimated tax.

You also may need to consider the amount of potential transfer (estate) taxes that your estate may owe, due to the increase in the size of your estate after factoring in your inheritance. You may need to consider ways to help reduce these potential taxes.

How You Inherit Assets Makes a Difference

Your inheritance may be received through a trust or you may inherit assets outright. When you inherit through a trust, you'll receive distributions according to the terms of the trust. You may not have total control over your inheritance as you would if you inherited the assets outright.

Familiarize yourself with the trust document and the terms under which you are to receive trust distributions. You will have to communicate with the trustee of the trust, who is responsible for the administration of the trust and the distribution of assets according to the terms of the trust.

Even if you're used to handling your own finances, receiving a significant inheritance may promote spending without planning. Although you may want to quit your job, or buy a car, a house, or luxury items, this may not be in your best interest. Consider your future needs, as well, if you want your wealth to last. It's a good idea to wait at least a few months after inheriting money to formulate a financial plan. You'll want to consider your current lifestyle and your future goals, formulate a financial strategy to meet those goals, and determine how taxes may reduce your estate.

Receiving a significant inheritance may promote spending without planning, but don't make any hasty decisions.

Develop a Financial Plan

Once you have determined the value and type of assets you will inherit, consider how those assets will fit into your financial plan. For example, in the short term, you may want to pay off consumer debt such as high-interest loans or credit cards. Your long-term planning needs and goals may be more complex. You may want to fund your child's college education, put more money into a retirement account, invest, plan to help reduce taxes, or travel.

Evaluate Your Insurance Needs

Depending on the type of assets you inherit, your insurance needs may need to be adjusted. For instance, if you inherit valuable personal property, you may need to adjust your property and casualty insurance coverage. Your additional wealth from your inheritance means you probably have more to lose in the event of a lawsuit. You may want to purchase an umbrella liability policy that can help protect you against actual loss, large judgments, and the cost of legal representation. You may also need to recalculate the amount of life insurance you need because of your inheritance. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

Evaluate Your Estate Plan

Depending on the value of your inheritance, it may be appropriate to re-evaluate your estate plan. Estate planning involves conserving your money and putting it to work so that it best fulfills your goals. It also means helping reduce your exposure to potential taxes and creating a comfortable financial future for your family and other intended beneficiaries.

Some things you should consider are to whom your estate will be distributed, whether the beneficiary(ies) of your estate are capable of managing the inheritance on their own, and how you can best shield your estate from estate taxes. If you have minor children, you may want to protect them from asset mismanagement by nominating an appropriate guardian or setting up a trust for them. If you have a will, your inheritance may make it necessary to make significant changes to that document, or you may want to make an entirely new will or trust. There are costs and ongoing expenses associated with the creation and maintenance of trusts and wills. Consult with an estate planning attorney for proper guidance.

Can Creditors Take Your Retirement Savings? It Depends

Given the immense financial hardship inflicted by the COVID-19 pandemic, a rise in personal bankruptcies could be waiting in the wings. For those whose livelihoods have been hit the hardest, it might be important to review the creditor protections that apply to their retirement accounts.

The extent to which assets are protected can vary significantly, depending on the type of account and applicable federal or state law. Being aware of the details can help individuals in financial or legal jeopardy determine whether and/or when they should file for bankruptcy to preserve their retirement funds. It may also help them avoid costly rollover mistakes.

Employer Plans

Most employer-sponsored retirement plans, such as 401(k)s, provide virtually unlimited protection against both bankruptcy and non-bankruptcy general creditor claims under the Employee Retirement Income Security Act of 1974 (ERISA). An example of a general creditor claim is when a person files a lawsuit and wins a judgment in court against the account owner. Thanks to ERISA, creditors cannot attach retirement account funds to satisfy any debts or obligations, regardless of whether bankruptcy has been declared.

Solo 401(k) plans, which are often utilized by self-employed individuals and independent contractors, are not covered by ERISA. This means that solo 401(k) plans — along with other non-ERISA employer plans such as 403(b)s, 457(b) governmental plans, and SEP and SIMPLE IRAs — do not receive non-bankruptcy creditor protection under federal law, though they are fully protected from bankruptcy under the Bankruptcy Code. (Outside of bankruptcy, general creditor protection is based on state law.)

IRAs and Rollovers

Traditional and Roth IRA contributions and earnings are protected from bankruptcy up to $1,362,800 per person until April 1, 2022. This limit is for all accounts combined and is adjusted for inflation every three years. Rollovers from employer plans, including SEP and SIMPLE plans, do not count against this cap. However, the U.S. Supreme Court ruled unanimously that IRA assets inherited by nonspouses are not protected under the Bankruptcy Code.

General creditor protection for traditional and Roth IRAs is based on state law, as it is with SEP and SIMPLE IRAs. So, account owners should carefully consider their own state's general creditor protections before rolling fully protected ERISA plan dollars into an IRA. Those who change jobs should remember they may have two other options: leave savings in the former employer's plan or transfer them to a new employer's plan, if allowed. Unfortunately, retirement account withdrawals and pension benefits paid as income are no longer protected from bankruptcy, so creditors may wait patiently and stake a claim to retirement funds after they are withdrawn.