OnWealth

Financial Advice from Wealth Management Services

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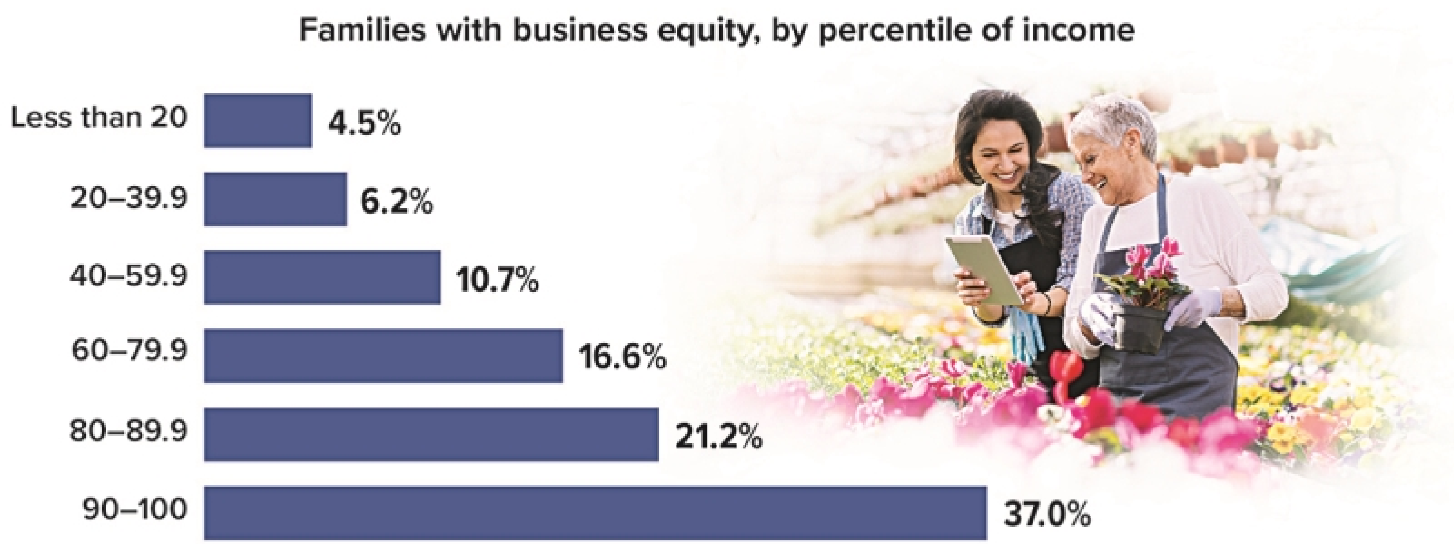
One Way to Wealth

About 13% of U.S. families owned a business in 2019, and they tended to have higher incomes and greater wealth overall than families without a business. Business ownership also rises with income.



Source: 2019 Survey of Consumer Finances, Federal Reserve Board, 2020

How Well Do You Understand Retirement Plan Rules?

Qualified retirement plans, such as IRAs and 401(k)s, have many rules, and some of them can be quite complicated. Take the following quiz to see how well you understand some of the finer points.

1. You can make an unlimited number of retirement plan rollovers per year.

A. True

B. False

C. It depends

2. If you roll money from a Roth 401(k) to a Roth IRA, you can take a tax-free distribution from the Roth IRA immediately as long as you have reached age 59½.

A. True

B. False

C. It depends

3. You can withdraw money penalty-free from both your 401(k) and IRA (Roth or traditional) to help pay for your children's college tuition or to pay for health insurance in the event of a layoff.

A. True

B. False

C. It depends

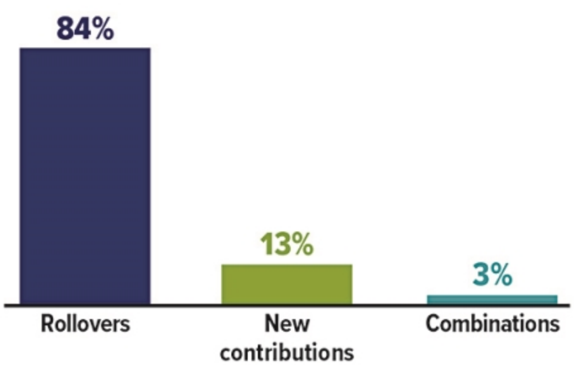
4. If you retire or otherwise leave your employer after age 55, you can take penalty-free distributions from your 401(k) plan. You can't do that if you roll 401(k) assets into an IRA.

A. True

B. False

C. It depends

Shares of Traditional IRA Assets Opened with...



Source: Investment Company Institute, 2020 (data reflects IRAs opened in 2016)

1. C. It depends. Rollovers can be made in two ways — through a direct rollover, also known as a trustee-to-trustee transfer, in which you authorize the funds to be transferred directly from one account or institution to another, or through an indirect rollover, in which you receive a check in your name (less a required tax withholding) and then reinvest the full amount (including the amount withheld) in a tax-deferred account within 60 days. If the full amount is not reinvested, the outstanding amounts will be considered a distribution and taxed accordingly, including any applicable penalty. Generally, individuals can make an unlimited number of rollovers in a 12-month period, either direct or indirect, involving employer-sponsored plans, as well as an unlimited number of direct rollovers between IRAs; however, only one indirect (60-day) rollover between two IRAs is permitted within a 12-month period.

2. C. It depends. Beware of the five-year rule as it applies to Roth IRAs. If you establish your first Roth IRA with your Roth 401(k) rollover dollars, you will have to wait five years to make a qualified withdrawal from the Roth IRA, regardless of how long you've held the money in your Roth 401(k) account, even if you are over 59½. However, if you have already met the five-year holding requirement with *any* Roth IRA, you may take a tax-free, qualified withdrawal.

3. B. False. You can take penalty-free withdrawals from an IRA, but not from a 401(k) plan, to pay for a child's qualifying education expenses or to pay for health insurance premiums in the event of a job loss. Note that ordinary income taxes will still apply to the taxable portion of the distribution, unless it's from a Roth account that is otherwise qualified for tax-free withdrawals.

4. A. True. If you leave your employer after you reach age 55, you may want to consider carefully whether to roll your money into an IRA. Although IRAs may offer some advantages over employer-sponsored plans — such as a potentially broader offering of investment vehicles — you generally cannot take penalty-free distributions from an IRA between age 55 and 59½, as you can from a 401(k) plan if you separate from service. If you might need to access funds before age 59½, you could leave at least some of your money in your employer plan, if allowed.

When leaving an employer, you generally have several options for your 401(k) plan dollars. In addition to rolling money into an IRA and leaving the money in your current plan (if the plan balance is more than $5,000), you may be able to roll the money into a new employer's plan or take a cash distribution, which could result in a 10% tax penalty (in addition to ordinary income taxes) on the taxable portion, unless an exception applies.

Home-Sweet-Home Equity

Buying a home is a long-term commitment, so it's not surprising that older Americans are much more likely than younger people to own their homes "free and clear" *(see chart).* If you have paid off your mortgage or anticipate doing so by the time you retire, congratulations! Owning your home outright can help provide financial flexibility and stability during your retirement years.

Even if you still make mortgage payments, the equity in your home is a valuable asset. And current low interest rates might give you an opportunity to pay off your home more quickly. Here are some ideas to consider.

Enjoy Lower Expenses

If you are happy with your home and don't need to tap the equity, living free of a monthly mortgage could make a big difference in stretching your retirement dollars. It's almost as if you had saved enough extra to provide a monthly income equal to your mortgage. You still have to pay property taxes and homeowners insurance, but these expenses are typically smaller than a mortgage payment.

Consider Downsizing

If you sell your home and purchase another one outright with cash to spare, the additional funds could boost your savings and provide additional income. On the other hand, if you take out a new mortgage, you may set yourself back financially. Keep in mind that condominiums, retirement communities, and other planned communities typically have monthly homeowners association dues. On the plus side, these dues generally pay for maintenance services and amenities that could make retirement more enjoyable.

Borrow on Equity

If you stay in your home and want money for a specific purpose, such as remodeling the kitchen or fixing the roof, you might take out a home-equity loan. If instead you'll need to access funds over several years, such as to pay for college or medical expenses, you may prefer a home-equity line of credit (HELOC).

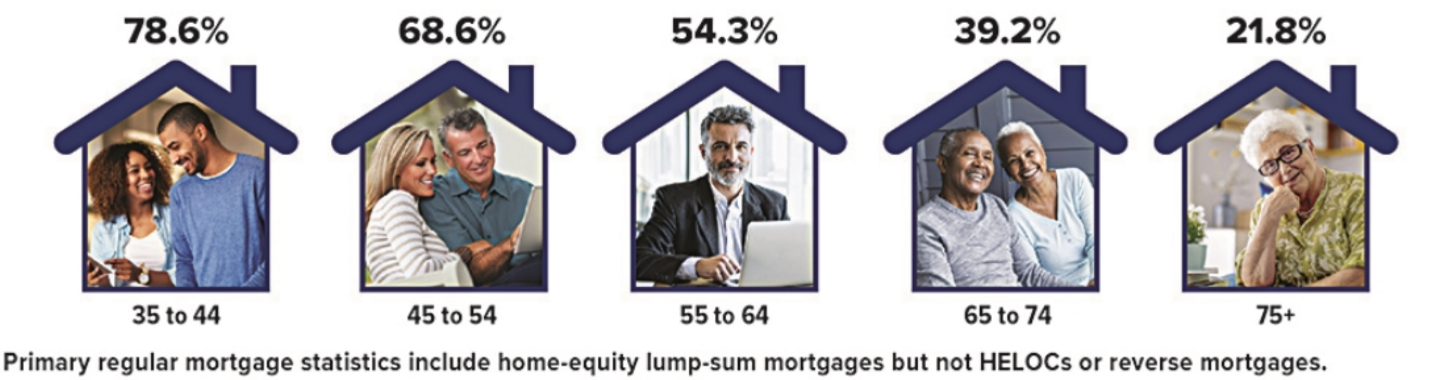
Home-equity financing typically has favorable interest rates because your home secures the loan. However, you are taking on another monthly payment, and the lender can foreclose on your home if you fail to repay the loan. In addition, you may have to pay closing costs and other fees to obtain the loan. Interest on home-equity loans and HELOCs is typically tax deductible if the proceeds are used to buy, build, or substantially improve your main home, but is not tax deductible if the proceeds are used for other expenses.

Refinance

With mortgage rates near historic lows, you might consider refinancing your home at a lower interest rate. Refinancing may allow you to take some of the equity out as part of the loan, but of course that increases the amount you borrow. While a refi loan may have a lower interest rate than a home-equity loan or HELOC, it might have higher costs that could take some time to recoup. And a new loan comes with a new amortization schedule, so even with lower rates, a larger portion of your payment may be applied to interest in the early years of the loan. Refinancing might be a wise move if the lower rate enables you to pay off a new mortgage faster than your current mortgage.

Paying Off the Mortgage

The percentage of homeowners with a primary regular mortgage declines steadily with age.



Source: 2019 American Housing Survey, U.S. Census Bureau, 2020

Five Tips to Follow When Applying for a Mortgage

The housing market during the coronavirus pandemic has certainly been notable. Historically low interest rates resulted in record homebuying, even as housing prices escalated.[1]

Fortunately, the mortgage industry has been able to keep up with the pace of the real estate market by utilizing already existing technology. Homebuyers can search for lenders, compare interest rates, and apply for mortgages online. In addition, mortgage lenders are able to do alternative appraisals, perform safe home inspections, and conduct closings electronically.

Even though applying for a mortgage is much easier these days, navigating the world of mortgages — especially for first-time homebuyers — can be complicated. As a result, you'll want to keep the following tips in mind.

Check and maintain your credit. A high credit score not only may make it easier to obtain a mortgage loan but could potentially result in a lower interest rate. Be sure to review your credit report for inaccuracies. You may have to take steps to improve your credit history, such as paying your monthly bills on time and limiting credit inquiries on your credit report (which are made every time you apply for new credit).

Shop around. Be sure to shop around among various lenders and compare the types of loans offered, along with the costs and rates associated with those loans. Consider each lender's customer service reputation as well.

Get pre-approved for a loan. In today's hot housing market, it's essential to have a mortgage pre-approval letter in hand before making an offer. Obtaining a mortgage pre-approval letter lets you know how large a loan you can get. However, this isn't necessarily how much you can afford. Be sure to examine your budget and lifestyle to make sure that your mortgage payment — principal and interest as well as property taxes and homeowners insurance — is within your means.

Review your down-payment options. Though lenders prefer a down payment of 20% or more, some types of home loans allow down payments as low as 3%. A larger down payment can help you obtain a lower interest rate, potentially avoid paying for private mortgage insurance, and have smaller monthly payments.

Read the fine print. Before you sign any paperwork, make sure that you fully understand the terms of your mortgage loan and the costs associated with it. For example, if you are applying for an adjustable-rate mortgage, it's important to be aware of how and when the interest rate for the loan will adjust.

1) MarketWatch, September 5, 2020