

Captain's Log

Guiding Your Financial Journey

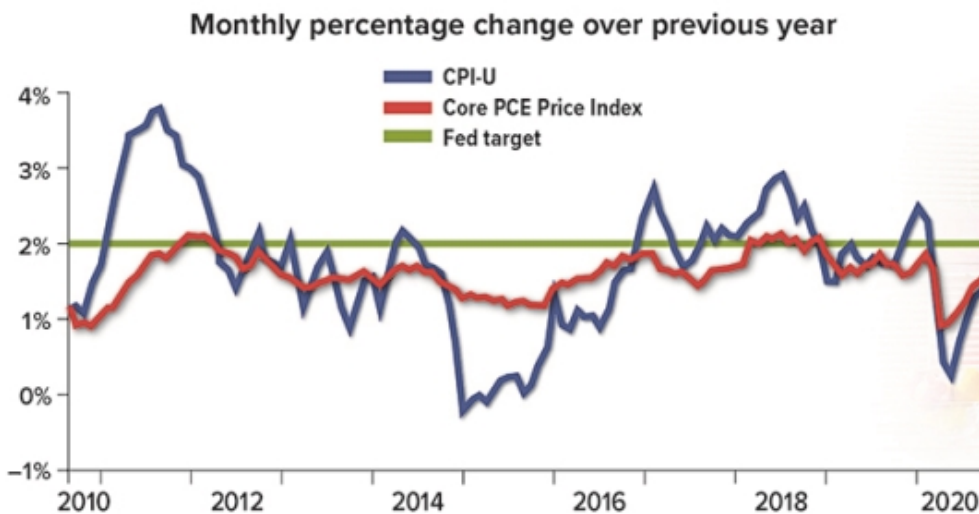


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Different Inflation Measures, Different Purposes

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.

Watch Out for These Financial Pitfalls in the New Year

As people move through different stages of life, there are new financial opportunities and potential pitfalls around every corner. Here are common money mistakes to watch out for at every age.

Your 20s & 30s

Being financially illiterate. By learning as much as you can about saving, budgeting, and investing now, you could benefit from it for the rest of your life.

Not saving regularly. Save a portion of every paycheck and then spend what's left over — not the other way around. You can earmark savings for short-, medium-, and long-term goals. A variety of mobile apps can help you track your savings progress.

Living beyond your means. This is the corollary of not saving. If you can't manage to stash away some savings each month and pay for most of your expenses out-of-pocket, then you need to rein in your lifestyle. Start by cutting your discretionary expenses, and then look at ways to reduce your fixed costs.

Spending too much on housing. Think twice about buying a house or condo that will stretch your budget to the max, even if a lender says you can afford it. Consider building in space for a possible dip in household income that could result from a job change or a leave from the workforce to care for children.

Overlooking the cost of subscriptions and memberships. Keep on top of services you are paying for (e.g., online streaming, cable, the gym, your smartphone bill, food delivery) and assess whether they still make sense on an annual basis.

Not saving for retirement. Perhaps saving for retirement wasn't on your radar in your 20s, but you shouldn't put it off in your 30s. Start now and you still have 30 years or more to save. Wait much longer and it can be hard to catch up. Start with whatever amount you can afford and add to it as you're able.

Not protecting yourself with insurance. Consider what would happen if you were unable to work and earn a paycheck. Life insurance and disability income insurance can help protect you and your family.

Your 40s

Not keeping your job skills fresh. Your job is your lifeline to income, employee benefits, and financial security. Look for opportunities to keep your skills up-to-date and stay abreast of new workplace developments and job search technologies.

Spending to keep up with others. Avoid spending money you don't have trying to keep up with your friends, family, neighbors, or colleagues. The only financial life you need to think about is your own.

Funding college over retirement. Don't prioritize saving for college over saving for retirement. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Closer to college time, have a frank discussion with your child about college options and look for creative ways to help reduce college costs.

Using your home equity like a bank. The goal is to pay off your mortgage by the time you retire or close to it — a milestone that will be much harder to achieve if you keep moving the goal posts.

Ignoring your health. By taking steps now to improve your fitness level, diet, and overall health, not only will you feel better today but you may reduce your health-care costs in the future.

The Weight of Too Much Debt

Approximately 70% of workers with non-mortgage debt say their debt has impacted their ability to save for emergencies and retirement, with 40% saying their debt is a “minor” problem and 21% saying it is a “major” problem.



Source: Employee Benefit Research Institute, 2020

Your 50s & 60s

Co-signing loans for adult children. Co-signing means you're 100% on the hook if your child can't pay — a less-than-ideal situation as you approach retirement.

Raiding your retirement funds before retirement. It goes without saying that dipping into your retirement funds will reduce your nest egg, a significant tradeoff for purchases that aren't true emergencies.

Not knowing your sources of retirement income. As you near retirement, you should know how much money you (and your partner, if applicable) can expect from three sources: your personal retirement accounts (e.g., 401(k) plans and IRAs); pension income from an employer; and Social Security at age 62, full retirement age, and age 70.

Not having a will or advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

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

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