Current Financial Topics

Food for Thought

An
AICPA Personal Financial
Planning Section
member benefit

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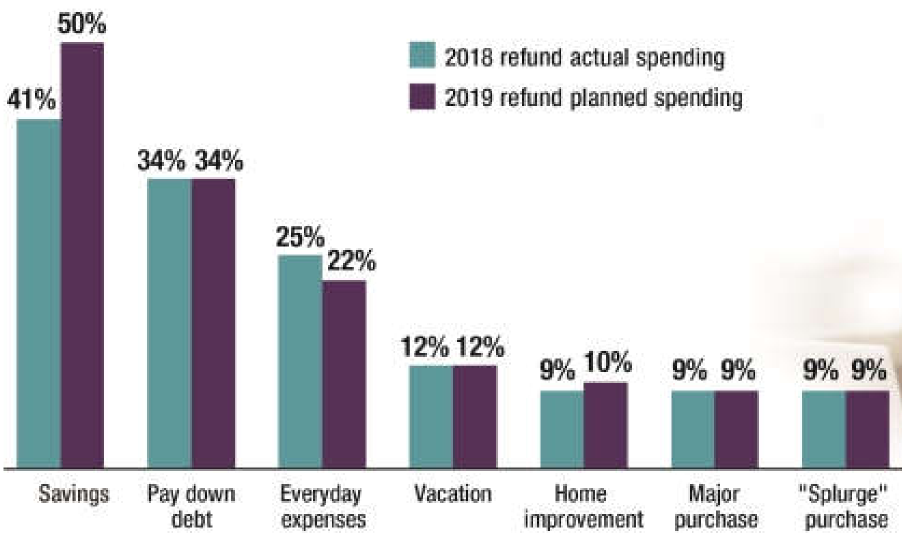
Tax Refund: Spend or Save

About 72% of taxpayers received a refund in 2018 and 2019. Here's how consumers spent the tax refunds they received in 2018 and what they planned to do with their 2019 refunds.



Sources: Internal Revenue Service, 2019; National Retail Federation, 2019 (multiple responses allowed)

Recent events have generated a lot of articles, commentary, presentations, articles, analysis, etc. Bob Veres was the first one I saw that stressed that COVID-19 was a health issue. We should all remember that our health and that of our loved ones is more important than our portfolios.

His answer to those questioning if they should get out of the market is: "it has never been a winning strategy to sell when everybody else is selling… The best strategy has, in the past, been to ride out the downturn and experience the subsequent up turn-which may come tomorrow, next week, next month or next year." "…bear markets like this one …pose a real danger… There is a real danger in selling at the bottom and then missing …the recovery.' "Quarantine your emotions…" is from a recent article by Jonathan Clements.

Stay healthy and safe! Thank you for your support and referrals. Joe

Keeping Cool: Investment Strategy vs. Reaction

After losing ground in 2018, U.S. stocks had a banner year in 2019, with the S&P 500 gaining almost 29% — the highest annual increase since 2013.[1] It's too early to know how 2020 will turn out, but it's been rocky so far, and you can count on market swings to challenge your patience as an investor.

The trend was steadily upward last year, but there were downturns along the way, including a single-day drop of almost 3% on August 14. That plunge began with bad economic news from Germany and China that triggered a flight to the relative safety of U.S. Treasury securities, driving the yield on the 10-year Treasury note below the 2-year note for the first time since 2007. A yield curve inversion has been a reliable predictor of past recessions and spooked the stock market.[2] By the following day, however, the market was back on the rise.[3]

It's possible that a yield curve inversion may no longer be a precursor to a recession. Still, larger concerns about the economy are ongoing, and this incident illustrates the pitfalls of overreacting to economic news. If you were also spooked on August 14, 2019, and sold some or all of your stock positions, you might have missed out on more than 13% equity market growth over the rest of the year.[4]

Tune Out the Noise

The media generates news 24 hours a day, seven days a week. You can check the market and access the news anywhere you carry a mobile device. This barrage of information might make you feel that you should buy or sell investments in response to the latest news, whether it's a market drop or an unexpected geopolitical event. This is a natural response, but it's not wise to react emotionally to market swings or to news that you think might affect the market.

Stay the Course

Consider this advice from John Bogle, famed investor and mutual fund industry pioneer: "Stay the course. Regardless of what happens to the markets, stick to your investment program. Changing your strategy at the wrong time can be the single most devastating mistake you can make as an investor."[5]

This doesn't mean you should never buy or sell investments. However, the investments you buy and sell should be based on a sound strategy appropriate for your risk tolerance, financial goals, and time frame. And a sound investment strategy should carry you through market ups and downs.

It can be tough to keep cool when you see the market dropping or to control your exuberance when you see it shooting upward. But overreacting to market movements or trying to "time the market" by guessing at future direction may create additional risk that could negatively affect your long-term portfolio performance.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. If not held to maturity, they could be worth more or less than the original amount paid.

1) S&P Dow Jones Indices, 2020

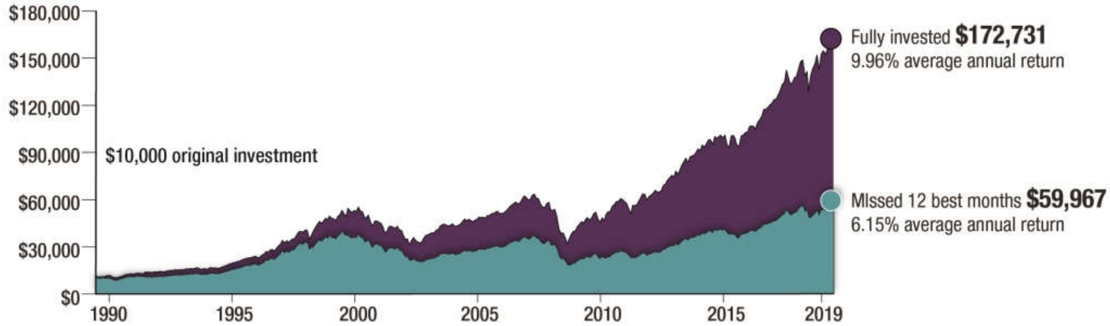
2) *The Wall Street Journal,* August 14, 2019

3-4) Yahoo! Finance (S&P 500 index for the period 8/14/2019 to 12/31/2019)

5) MarketWatch, June 6, 2017

Long-Term Commitment

"Time in the market" is generally more effective than trying to time the market. An investor who remained fully invested in the U.S. stock market over the past 30 years would have received almost triple the return of an investor who missed the best 12 months of market performance.



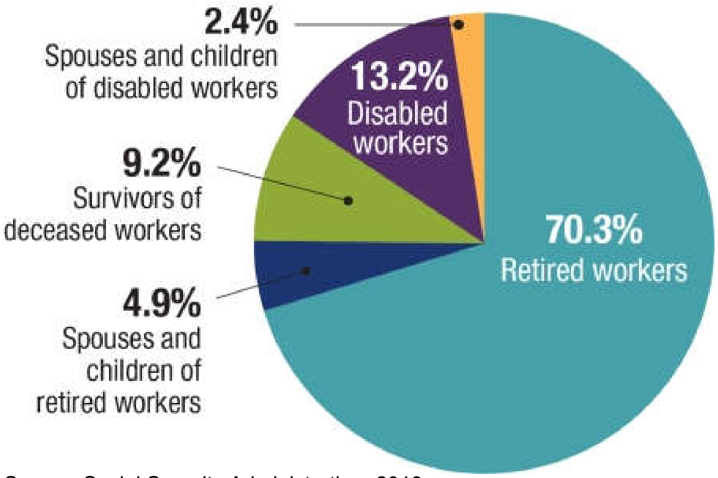
Source: Refinitiv, 2020, S&P 500 Composite Total Return Index for the period 12/31/1989 to 12/31/2019. The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. This hypothetical example is used for illustrative purposes only and does not consider the impact of taxes, investment fees, or expenses. Rates of return will vary over time, particularly for long-term investments. Actual results will vary. Past performance does not guarantee future results.

Social Security May Offer a Lifetime of Protection

Social Security is much more than a retirement program. Most Americans are protected by the Old-Age, Survivors, and Disability Insurance (OASDI) program — the official name of Social Security — from birth through old age. Here are four times in your life when Social Security might matter to you or the people you care about.

A Wide Safety Net

Current Social Security beneficiaries



Source: Social Security Administration, 2019

When You Start Your Career

Your first experience with Social Security might be noticing that your paycheck is smaller than you expected due to FICA (Federal Insurance Contributions Act) taxes. Most jobs are covered by Social Security, and your employer is required to withhold payroll taxes to help fund Social Security and Medicare.

Although no one likes to pay taxes, when you work and pay FICA taxes, you earn Social Security credits, which enable you (and your eligible family members) to qualify for Social Security retirement, disability, and survivor benefits. Most people need 40 credits (10 years of work) to be eligible for Social Security retirement benefits, but fewer credits may be needed to receive disability benefits or for family members to receive survivor benefits.

If You Become Disabled

Disability can strike anyone at any time. Research shows that one in four of today's 20-year-olds will become disabled before reaching full retirement age.[1]

Social Security disability benefits can replace part of your income if you have a severe physical or mental impairment that prevents you from working. Your disability generally must be expected to last at least a year or result in death.

When You Marry…or Divorce

Married couples may be eligible for Social Security benefits based on their own earnings or on a spouse's earnings.

When you receive or are eligible for retirement or disability benefits, your spouse who is age 62 or older may also be able to receive benefits based on your earnings if you've been married at least a year. A younger spouse may be able to receive benefits if he or she is caring for a child under age 16 or disabled before age 22 who is receiving benefits based on your earnings.

If you were to die, your spouse may be eligible for survivor benefits based on your earnings. Regardless of age, your spouse who has not remarried may receive benefits if caring for your child who is under age 16 or disabled before age 22 and entitled to receive benefits based on your earnings. At age 60 or older (50 or older if disabled), your spouse may be able to receive a survivor benefit even if not caring for a child.

If you divorce and your marriage lasted at least 10 years, your former unmarried spouse may be entitled to retirement, disability, or survivor benefits based on your earnings.

When You Welcome a Child

Your child may be eligible for Social Security if you are receiving retirement or disability benefits, and may receive survivor benefits in the event of your death. In fact, according to the Social Security Administration, 98% of children could get benefits if a working parent dies.[2] Your child must be unmarried and under age 18 (19 if a full-time student) or age 18 or older with a disability that began before age 22.

In certain cases, grandchildren and stepchildren may also be eligible for benefits based on your earnings.

Know the Rules

To receive any type of Social Security benefit, you must meet specific eligibility requirements, only some of which are covered here. For more information, visit [ssa.gov.](https://ssa.gov)

1-2) Social Security Administration, 2019

How Long Should You Keep Financial Records?

Now that tax season is over, you may want to file your most recent records and discard older records to make room for the new ones. According to the IRS, personal tax records should be kept for three years after filing your return or two years after the taxes were paid, whichever is later.* (Different rules apply to business taxes.) It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

The rules for tax records apply to other records you use for deductions on your return, such as credit card statements, utility bills, auto mileage records, and medical bills. Here are some other guidelines if you don't use these records for tax purposes.

Financial statements. You generally have 60 days to dispute charges with banks and credit card companies, so you could discard statements after two months. Once you receive your annual statement, throw out prior monthly statements.

Retirement plan statements. Keep quarterly statements until you receive your annual statement; keep annual statements until you close the account. Keep records of nondeductible IRA contributions indefinitely to prove you paid taxes on the funds.

Real estate and investment records. Keep these at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records.

Loan documents. Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

Auto records. Keep registration and title information until the car is sold. You might keep maintenance records for reference and to document services to a new buyer.

Medical records. Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance.

Other documents you should keep indefinitely include birth, marriage, and death certificates; divorce decrees; citizenship and military discharge papers; and Social Security cards. Use a shredder if you discard records containing confidential information such as Social Security numbers and financial account numbers.

*Keep tax records for at least six years if you underreported gross income by more than 25% (not a wise decision) and for seven years if you claimed a deduction for worthless securities or bad debt.
