WORTH A REED

First Quarter 2021

Photo Credit: L. Smith

Monitoring Investments [1]

Amanda E. Lisachenko, CFP®, Chief Operating Officer

There is a small dent in my basement wall that I notice from time to time. Of course, all I need to do is use a little spackle and then repaint, but I tend to forget about it as soon as I am not looking at it. This is how many individuals manage their own portfolios. Every so often they check in on their investments to see how they are doing. Sometimes they may touch-up a position in their portfolio given its performance or allocation but then forget about it till the next time they log in or read a statement. Portfolios need more attention than the occasional review. It is important to understand how these individual positions will potentially react in different market environments and to have a long-term view.

Every year there are different variables that add or subtract from the performance of an investment portfolio but sometimes those variables can change quickly. Which is why we take the time to understand each of our managers and their objectives when building a portfolio. If an investor were to only spot check their portfolio at a point in time, they may end up making changes based on what *is* happening and not what *may* happen. Last year was a great example of this in both equities and bonds.

Many people have the perception of bonds as being safe and secure, but the fact is they can also be volatile. We utilize multi-sector bond funds that manage their portfolios across various grades and types of bonds. These managers pay attention to how outside factors such as interest rate movement, the issuance of debt and the impact on supply and demand, and the steepness of the yield when constructing their portfolios.

There was a lot of movement in 2020 as investors searched for safety in the first quarter of the year as concern for the virus spread. By the end of the first quarter the Barclays US Treasury was up 8.20%[1] due to the safety of treasuries being backed by the US government. In comparison Barclays Intermediate Corporates, a moderate bond risk, was down 3.15%[1] and Barclays High Yield Corporates was down 12.68%[1] as of March 31, 2020. But, if we fast forward to year-end, there was a complete role reversal as concerns dissipated. The Barclays US Treasury ended up down .83%[1], Barclays Intermediate Corporates up 1.76%[1] and Barclays High Yield Corporates up 6.45%[1]. The point is that if an individual were to reallocate and review their portfolio only in the first quarter, they would have potentially hurt the performance of the portfolio.

We monitor the portfolios and the individual positions regularly to assess how they are performing and reacting to the market environment. We have found this ongoing monitoring coupled with talking to managers on a regular basis help us look forward as to what may happen and not get caught up in the short-term. ■

Beware of Medicare Part B and D Premium Surcharges

Colleen M. Cleary, CPA/PFS, CFP®

Current Medicare recipients and individuals expecting to enroll in the program within the next two years should be on the lookout for a possible pitfall that could impact their future Medicare Parts B and D premiums. The Medicare program provides health insurance benefits to qualified U.S. citizens and permanent residents age 65 and older, as well as to younger qualified individuals with certain health conditions. The Medicare Part B program, which covers basic physician care, and the Medicare Part D program, which covers prescription drugs, both assess monthly premium surcharges for high income individuals.

The Medicare premium surcharge assessment is formally known as the Income Related Monthly Adjustment Amount (IRMAA). To determine your 2021 Medicare Part B and D premiums and the possible assessment of a surcharge/IRMAA, the Social Security Administration reviews your tax return from 2 years prior. In other words, your 2021 Part B and D premiums are calculated based on your 2019 tax return. Modified Adjusted Gross Income (MAGI) is used to determine if a surcharge/IRMAA applies. MAGI is the sum of the beneficiary's adjusted gross income (AGI) and tax-exempt interest reported on their Form 1040.

If your MAGI in 2019 was less than or equal to $88,000 if you filed as an individual, or $176,000 if you filed jointly, you will not be assessed a monthly surcharge/IRMAA for 2021. If your MAGI is more than these amounts, a per person monthly surcharge/IRMAA will be added to your premium. Medicare premiums are recalculated annually, so if you get hit with a surcharge for one year, it does not necessarily mean one will be assessed in future years. These surcharges can really add up and put a strain on your monthly budget, so it is important to consider the impact of income and tax return filing status on your Medicare premiums.

When determining the filing status for taxpayers, many tax preparers focus on the total tax paid and fail to take into consideration the impact of income and filing status on Medicare premiums. Here are a few facts to help you be an informed Medicare recipient:

- Let your tax preparer know you want decisions regarding your filing status to take into consideration any possible impact on your future Medicare Part B and D premiums.
- Filing status decisions should not just be based on how much tax you will pay on your returns. If you are assessed a Medicare premium surcharge/IRMAA, the impact to your monthly budget could be significant.
- If you do choose to file as married filing separately, be aware that each spouse's return can only show income of up to the MAGI individual threshold amount before being assessed a premium surcharge/IRMAA. If one spouse generates most of the family income for a year, that spouse may exceed the individual surcharge threshold and be assessed a premium surcharge/IRMAA. If a joint filing status is used instead, the tax bill may be slightly more, but you may avoid or lessen the amount of assessed premium surcharge/IRMAA.
- Before deciding to generate additional income for any tax year, ask your tax preparer if the income will cause you to be subject to a Medicare premium surcharge/IRMAA. Income items to consider include capital gains, IRA distributions and Roth conversions. Your accountant can help you structure these decisions in the best manner for your personal situation.
- If you are age 70 or older, consider using Qualified Charitable Distributions (QCDs) to lessen the amount of IRA income included in your AGI/MAGI.

People doing large Roth conversions in one year or retiring at or after age 63 often get hit with the surcharge/IRMAA initially even though their MAGI at retirement would not qualify them for an assessment. If your personal situation has changed from what was reported on the tax return filed two years previously, you can proactively notify the Social Security Administration (SSA) by using a "Medicare Income-Related Monthly Adjustment Amount – Life Changing Event Form" or by scheduling an interview with your local SSA office (1.800.772.1213). This form may be used to report the following:

- If you retired at age 63, use the form to report a "work stoppage."
- You can request a new decision if you have experienced any of the following life-changing events that could impact your assessed surcharge/IRMAA amount:
  - ◊ Change in marital status through divorce, marriage, annulment, or death of a spouse
  - ◊ Either you or your spouse have reduced income due to a reduction in work hours or retirement.

(Continued)

Medicare B and D Premium Surcharges
(continued)

- ◊ You or your spouse suffered a loss of income due to a disaster or event beyond your control.
- ◊ You or your spouse experienced a termination or re-organization of an employer's pension plan.
- ◊ You or your spouse received a settlement from an employer due to a closure, a bankruptcy or reorganization.

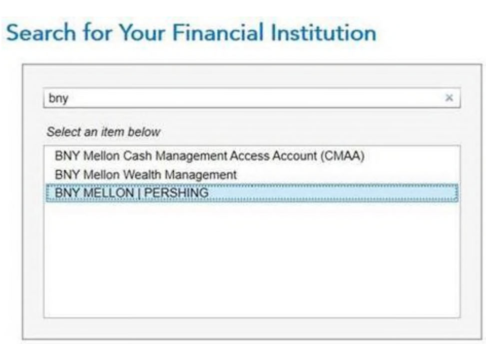
- Please note that income increases from such items as capital gains are not eligible for reconsideration.
- There have been some instances when the SSA granted reconsideration due to Roth conversions. In those instances, the individual has explained how the conversion would impact future income. If you choose to report a temporary MAGI increase due to a Roth conversion, it is suggested that the discussion take place in person.

If you disagree with an assessed premium and do not proactively notify the SSA of special circumstances, you will need to initiate the appeal process by completing a Request for Reconsideration (Form SSA-561-U2) or by contacting your local SSA office (1.800.772.1213) to request an appointment.

To avoid an unpleasant surprise in the future, please keep these facts in mind and take a few minutes to discuss Medicare premiums with your tax preparer. The savings may be significant. ■

IMPORTING PERSHING ACCOUNTS INTO TURBO TAX

Please be aware that if you are importing tax information into TurboTax, when you are prompted to 'Search For Your Financial Institution' you will want to type 'BNY'. Then you can pick the bottom choice highlighted below.



Efficient Check Deposit

Janet Edwards, Director of Client Relations

As the US mail delivery is still experiencing longer than normal delays, please be aware the best way to deposit checks quickly and efficiently is to leverage mobile check deposits. The other efficient alternative is to utilize automated clearing house (ACH)/electronic funds transfer (EFT) in which you can link your bank account and you can just give us a call to request a transfer of funds.

As the mobile check deposit has grown in popularity, Pershing has increased the limit to $750,000 that a client can deposit through a mobile check deposit.

To utilize this service, you can download the Investor Portal Mobile Application. You can download and install the Investor Portal mobile application directly to your Android or iOS device by searching for it on Google Play Store or Apple App Store.

DEVICE	APPLICATION NAME
Android	Pershing Advisor Solutions-NetXInvestor
iOS	BNY Mellon | Pershing

To Deposit a check-

1. Tap **Menu** > **Transact** > **Mobile Deposit**. A page displays where you can use the device camera to take a photo of the check.
2. Take a photo of the front of the check and the back of the check.
3. Follow the prompts to select the desired account and enter the deposit amount.
4. For retirement account, select a contribution reason.
5. After providing the details, tap REVIEW to verify the deposit details.
6. Verify the deposit details and tap SUBMIT.

TIP: You can split a check between seven accounts. To split a check, tap Split Deposit before you take photos of the check, select the number of splits, and follow steps #3 through 6 to complete the deposit.

Call us if you have any questions or would like to establish online viewing with Pershing to utilize this service. ■

Technological Revolution

Evan Watson, Investment Analyst

Since the beginning of our country, there have been two great revolutions in the way Americans live and work. The first came near the beginning of our country as steam power made trade and transportation more accessible. The second came in the late 1800s bringing in massive revolution to where we lived and how we communicated. This revolution brought innovations like the combustible engine which allowed for automobiles and airplanes. It also saw the invention of the telegraph that stretched alongside the railroads. All of this allowed for the growth of the United States economy and improved the standard of living for most people over time. Now, we seem to be in the midst of the third revolution centered around technological innovation.

These historic revolutions shifted the paradigm of the American economy and the world's economy. It transformed where people lived as people moved west for the gold rush or moved closer to cities as industrialization replaced much of the agricultural jobs. As we have seen, our lives are being changed in a similar way. As technology improves, we have not seen a dramatic shift in where people are working. It has almost become a norm for individuals to work from home, shifting the way the workplace may look. Additionally, it changes where people want to live. Now that there is not a huge need to be in the middle of a city, you have seen a shift to suburbs as people look for a bit more space.

Over the last year, we have had a dramatic change in the way we also live. Things like streaming, and grocery shopping through apps have all become popular because of the need for social distancing and locking down.

Additionally, things like video conferencing have grown in popularity.

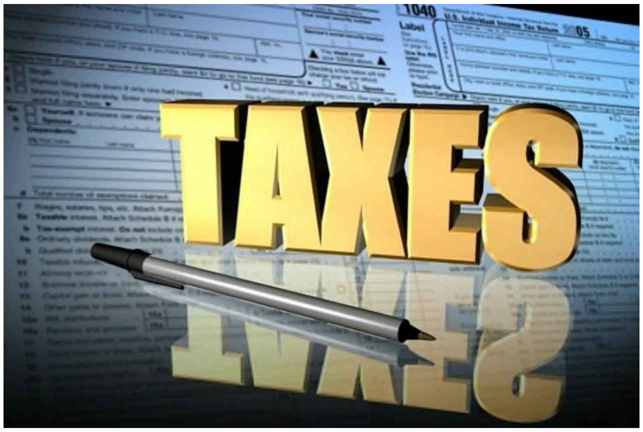
However, there has been a revolution brewing in our economy for a few years. Things like automation, electric vehicles, 3D printing and alternative energy sources have been areas that companies have been investing in. These things are moving from the fringes towards the forefront and changing the dynamics of our economy.

As the other revolutions transitioned our economy, this technological revolution will do the same. Like the steam power of the 1800s or the oil revolution that led the change in the past, we need a driver at the center of the change that ties things together. In this revolution, it seems like it is going to be the internet expansion through 5G. This increase in the internet speeds and strength will allow for other technologies like autonomous driving as the need for a faster internet is driven by these technologies.

Additionally, things like automation and 3D printing in manufacturing will need to be able to interact and communicate with each other as well.

This is not exclusive to luxuries like automobiles or manufacturing. It can also be seen in healthcare as well. One example is the pace at which a vaccine was created in the last year. A large factor in this ability to create a vaccine is the ability to understand the DNA of the virus. This speed allowed the experts to create a vaccine and get it through approval much faster.

These technological advancements are not going anywhere any time soon. Obviously not all these innovations will stick, but our lives will continue to be impacted by these changes. We will look to navigate this both as individuals as well as investors.



Will Filing Early Increase Your Third Stimulus Payment?

Colleen M. Cleary, CPA/PFS, CFP®

The 2020 tax return filing season is now in full swing. Much attention in the news has centered around President Biden's plan for COVID relief, and many individuals wonder if they will be eligible for a third stimulus payment in the upcoming months. A COVID relief reconciliation bill is currently being developed and is expected to include an additional stimulus payment to eligible individuals. These payments will most likely be sent out in mid-March or later, right in the middle of the 2020 tax filing season.

There are two items that determine the amount of stimulus payment you will receive – the number of eligible individuals in your household and your adjusted gross income level based on your filing status. President Biden's current proposal for this round of stimulus includes payments of up to $1,400 per eligible person, including dependents regardless of age. Phaseouts for the payments are expected to occur if adjusted gross income (AGI) exceeds $75,000 for single individuals, $112,500 for head-of-household filers and $150,000 for individuals using the married filing joint filing status.

Because the IRS uses information reported on your most recent tax return to determine the amount of your stimulus check, the timing of when you file your 2020 return may impact the check amount. If the IRS has processed your 2020 return by the time they start processing the next round of stimulus checks, they will use that return's information to calculate your stimulus check. If your 2020 return is not processed by then, they will use your 2019 return for the calculation.

The amount of your stimulus payment may differ significantly depending on which year's return is used for the calculation. You may therefore want to keep the following items in mind when deciding when to file your return:

Consider filing early if your 2020 return will help you qualify for a third stimulus payment. Some 2020 situations that may help you in this area include:

- The birth or adoption of a child in 2020
- Your 2020 income is lower than 2019
- You got married in 2020, especially if one spouse has a low amount of income
- You are no longer claimed as a dependent on someone else's return

Consider waiting to file your 2020 return closer to the April 15 filing deadline if you expect to get a larger stimulus payment if it is calculated based on your 2019 return. Some examples of situations that may make a delay in filing desirable include:

- You experienced a death in the family in 2020
- Your 2020 income is higher than 2019
- You got divorced in 2020
- You can no longer claim a dependent on your return in 2020

The final approved legislation will ultimately determine how the next round of stimulus payments are calculated. Please consult with your tax preparer and keep your personal situation in mind as you determine when to file your 2020 tax return. ■

Inflation

Evan Watson, Investment Analyst

It seems as though the word for 2021 was "unprecedented". Everything we knew as normal changed in the blink of an eye and we all adapted overnight. This included our financial markets. Equity valuations moved higher, inflation remained low, and interest rates moved lower as the Federal Reserve tried to be more accommodative. Almost a full year after the start of the pandemic, this remains true as we have had trillions of dollars of stimulus pushed into the economy, equity markets have recovered and moved to new highs, and the Fed has signaled they will remain accommodative. As we look to the future, one thing that some are worried about is inflation.

Inflation tells us how much the price of goods is changing over time. During periods of high inflation, the price of goods will increase greatly. During periods of low inflation, the price change is more modest.

When money is injected into the system, it has one of two paths to go down. These choices are either to be spent or saved. If most of the money is being spent, the economy should be growing and creating more things. This is the idea behind stimulative fiscal policy.

However, if the economy gets to a point where the amount of money exceeds the amount of goods that can be produced, the economy needs to do something to balance out. This usually results in the increase in inflation. If this price change is modest, then the economy has really nothing to be concerned about since some inflation is good for the economy. If the demand for goods becomes too much, you would really start to see significant inflation. Rapid inflation is a sign of imbalance and would require change to restore a more normalized level of inflation.

As we noted above, there has been a large influx of cash into the economy to help support individuals and businesses. Now the concern is that this large amount of cash will chase too few goods and we will see rapid levels of inflation. However, there are two things that are pushing back against that narrative. The first is what is happening with this money. There are economic indicators that are showing that there is more saving than spending currently going on. For obvious reasons, people have changed their habits and are not spending as much. With more saving than spending, there is not that chasing of goods. The second is that businesses are reopening and able to get back to more normalized production. This is allowing for businesses to keep up with demand and keeping the balance in price change.

At this point, inflation has remained subdued for more than 10 years. However, if inflation were to start to pop up, there are a few things that the government can do to slow inflation and get it back under control. The first would be through interest rates. Currently, interest rates are historically low and have remained there for some time. If the Federal Reserve started to have concerns about the rate of inflation, they could raise those rates. This makes borrowing money more costly and will reduce the amount of new loans in circulation.

The second thing that the government can do is to raise taxes. This raising of taxes is usually discussed when talking about paying down the deficit or "paying the bills". However, the true reason to raise taxes is to remove excess cash in the system. Without getting into too much of the semantics, the US government is the sole creator of the dollar. They are the only institution legally allowed to create or destroy currency. If they generate the currency and send it out, the only way to recoup the currency is to tax it out. If they raise taxes, they can pull more out of the system. With less currency on hand, spending will decrease, and inflation will decrease. Most of the time, a combination of raising rates and increasing taxes would be used to fight inflation.

At this time, inflation remains subdued, below the Federal Reserves target. There has not been a strong indication that inflation is coming any time soon either. As we continue forward, the changes and impacts remain to be seen. As economists can currently tell, we don't see inflation as being a major concern going forward. ■

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FOOTNOTES

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