B&C FINANCIAL ADVISORS

Accumulating Interest

December 2020 | VOLUME 9 | ISSUE 4

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THE OFFICE WILL BE CLOSED ON THE FOLLOWING DAYS:

January 20
Martin Luther King, Jr. Day

February 17
President's Day

April 10
Good Friday

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Is there a specific topic you would like for us to discuss? Don't be shy.

Contact us:

info@bandcfinancial.com

A Word from the Investment Department

by Sean Guldi, CFP®

Happy New Year – We Made It!

As we turn the corner to the new year and hope for a much better 2021 than 2020, it is often a time to review and reflect on your financial situation, analyze decisions made, and plan for how to make better choices in the new year. To that end, we want to offer some advice for New Year's resolutions for 2021.

1. Take stock of your allocation and your long-term plan.

No one could have predicted the COVID-19 pandemic that has altered the global economy, but if you were like most people you probably got a good test of your risk tolerance in March 2020. For those of you who stayed the course or perhaps allocated more to equities in the past year – you were rewarded for doing so. As we stand now, markets have recouped all the losses from early 2020 and have marched forward from there. Interest rates have reached historic lows and thus the prospect of allocating to fixed income leaves a lot to be desired from a return perspective. Take time to review your plan and asset allocation in light of the situation to determine if you should increase (or decrease) your exposure to the market.

2. If you are a borrower, now could be a good time to borrow (or refinance)

Interest rates being at historic lows mean you may be able to refinance your home mortgage to a lower rate and/or reduce your mortgage term from
30-year to 15-year and maintain similar payments. You may also find it advantageous to finance a car purchase or consolidate consumer debt. However, it may not make sense in every situation, so be sure to reach out to B&C to discuss your particular scenario.

3. Evaluate your tax situation (in light of potential changes with new administration)

The changes to political landscape may result in higher tax rates in the coming years. There are proposals from the new administration to increase capital gains taxes to match earned income rates, roll back tax brackets to the pre "Tax Cuts and Jobs Act" levels, institute social security withholding for high earners, and several other changes. If the changes are passed, you will most likely have the 2021 tax year to take advantage of lower rates. Remember that taxes should be secondary to the overall merits of the investment decisions you make.

You may also evaluate your tax withholding for 2021 based on your potential increase in pay or changes to your social security or retirement income. The temporary elimination of required minimum distributions in 2020 are done, and this means many folks will have higher taxable income in 2021 vs. 2020.

Given the potential changing environment, it is best to consult with an advisor for your particular circumstances, but we hope you find these three tips helpful for starting your (financial) new year off right!

B&C Welcomes a New Partner – Adam Oerther

B&C Financial Advisors is happy to announce the addition of a new shareholder, Adam Oerther, Vice President & Wealth Advisor, effective 2021.

Adam has been with B&C since 2012 after graduating from the University of Florida with a B.S. in Business Administration with a concentration in Finance and a Minor in Entrepreneurship. He is a Certified Financial PlannerTM and focuses primarily on managing client relationships, working on various aspects of their financial plans including investment and retirement planning.

In his spare time, Adam enjoys playing golf, spending time with family and friends, and volunteering with the North Florida Junior Golf Foundation. He is engaged to be married to his fiancée, Sarah, in January of 2022.

5 Real (Bad) Personal Finance Tips We Hear Too Often

by Adam Oerther, CFP®

1. You should borrow money from your 401(k) plan, because you are paying yourself the interest.
While this is technically correct (you do pay yourself the interest), it completely ignores the potential downsides of making this decision. First, contributions you make to a (Traditional) 401(k) plan are made with pre-tax dollars, but you pay back the loan using after-tax dollars. Assuming you're in a 32% tax bracket, this means for every $1 you earn to pay back the loan, only 68 cents of it can be used to do so. This means you need to earn more to make up that original contribution. Additionally, since the money you take out is no longer invested, you miss out on any potential earnings that money could make you toward your retirement. So, while the interest rate on the loan might be low, this additional "opportunity cost" increases the total cost of the loan. Finally, if for some reason you are unable to repay the loan and default on it, the outstanding balance becomes a normal withdrawal (if you don't qualify for a hardship withdrawal). Then, you must pay ordinary income tax on the money, plus an additional 10% early withdrawal penalty if you are under age 59 ½.

2. Buying a house is better than renting because you can write off the mortgage interest.
That might be true, but it also might not. You can deduct the mortgage interest (on mortgages of up to $750,000), but only if you itemize your deductions on your tax return. If you do not have enough mortgage interest or other deductions to allow you to itemize, as opposed to taking the standard deduction, which was nearly doubled by the Tax Cuts and Jobs Act (TCJA), then you really aren't benefiting from that tax benefit at all. This might cause some people to buy more house than they can afford, since a larger mortgage means more mortgage interest. Other factors that should also be considered in the buy versus rent decision include the length of time you expect to live in your home, the total amount of debt you already owe, and additional costs to owning a home. If you plan to move in the next few years, are unsure if your income is stable, or have a large amount of debt (student loans, car loans, credit cards, etc.), you are likely better off renting.

3. The mortgage you are approved for is what you can afford.
Buying a home can be a daunting experience, especially if you are purchasing your first home. It can be a wonderful feeling getting that pre-approval letter back saying you're approved for a larger house than you expected, but you must take into account the added expenses that go into owning and maintaining a home. These include property taxes, utilities, insurance, homeowners' association fees, and general upkeep costs like maintaining your yard and fixing broken appliances. All of these "hidden" costs add up and are not taken into account when a bank approves you for a loan, which is a good reminder that just because you can, doesn't mean you should—it may come back to haunt you down the road.

4. You should keep a balance on your credit card to help your credit score.
Credit cards are a bit of a "trick or treat" kind of deal. Using them can certainly be a good way to improve your credit and rack up travel perks or cash back. However, you should be responsible and pay off the balance regularly, ideally every month. Keeping a balance on the card costs you money in the form of (high) interest, and you can potentially hurt your credit score if the balance gets too high. If you are still skeptical, take it from one of the largest credit rating agencies out there.

5. All debt is bad debt, and you should pay it off before investing.
We get it, having debt can feel like someone is always watching you (and your bank account). When it comes to deciding whether to pay off debt or not, though, it's important to consider your alternatives. For example, if you are thinking about paying off your car loan, the interest on your car loan may be lower than your return on investing, so investing would likely be preferable to paying off the car loan. That being said, we understand there is a psychological benefit to paying off debt, and we do not necessarily discourage people from doing so if it does not materially affect their financial plan. In fact, sometimes it does make sense to pay off debt, such as when the interest rate is high or paying it off will improve your monthly cash flow. At the end of the day, everyone's financial situation is unique, and what makes sense for one person may be terrible advice for someone else.

Keeping Up with B&C

Welcome baby Shea!
Chief Investment Officer Sean Guldi's baby boy, Shea, was born on November 20th.
Big sister, Maisie, loves her new little brother.

Chief Compliance Officer Jacque Bos said yes!
Her fiance Paul popped the question in Monterey, CA!

Show us Your Pets!

B&C would love to see the pets that are keeping you company during quarantine! Please send your pictures to caitlin@bandcfinancial.com to be featured in the upcoming newsletters!

Client Linda Watkin's dog, Hunter

Annuity Series – Part 2: Pros and Cons

by Adam Oerther, CFP®

In the first part of our series on annuities, we defined some common terms associated with these often-complicated insurance products. Now that we are a bit more familiar with the terminology, in this post we will highlight some of the pros and cons of annuities.

(It is important to note, as we continue through this series, our goal with these articles is not necessarily to persuade our readers to purchase an annuity or discourage them from doing so. Rather, we simply hope to educate consumers and encourage further discussion before making what is likely a significant personal financial decision.)

Pros

Below are some of the features of annuities that can make them attractive to potential buyers:

1. Guaranteed Income for Life: Once an annuity contract is annuitized, the regular payments received by the owner of the contract are guaranteed to continue for at least the rest of their life. With additional features such as a "joint life" designation, the income stream can potentially continue even after the owner has died, though this typically lowers the amount of the regular payments.

2. Deferred Taxation: Similar to a Traditional IRA or 401(k), any growth achieved in an annuity is taxed only upon the withdrawal of funds. However, as we will see below, this can be a potential negative as well.

3. Guaranteed Rate of Return: With fixed annuities, the rate of return is known in advance, and this translates into a steady income stream (as opposed to variable annuities or other investment vehicles in which returns can vary).

4. Death Benefits: Annuities, especially variable annuities, often come with certain death benefits that pay out when the owner of the contract dies.

Cons

The following features are some potential reasons to avoid buying annuities:

1. Complexity: One of the fundamental rules of investing is to not invest in a product you don't understand, and annuities are no exception. The insurance market has expanded significantly over the past decade with many new, often colorful variations on the annuity. Unfortunately, many of these contracts come with fees and limitations so complex that few investors fully understand exactly what it is they are purchasing.

2. Fees: The various fees associated with annuity contracts make them more expensive than other retirement investments. Many are sold through insurance agents who earn a sizable commission when the contract is sold. Additionally, there are typically other annual expenses, often more than 2%. Finally, any additional features (a.k.a. riders) added onto the contract will incur further fees.

3. Surrendering Principal: One of the biggest drawbacks of annuities is once the decision to "annuitize" (i.e. begin receiving regular payments) is made, the money invested into the product (the principal) is surrendered to the insurance company. This means the contract owner's heirs will not receive anything if the contract owner dies, even if death occurs immediately after payments begin. In certain contracts, a death benefit or stream of payments may continue after the owner's death, but this is typically taken into account by the insurance company when the regular payments are calculated.

4. Growth Taxed as Ordinary Income: As noted above, growth in an annuity is tax-deferred, which annuity salespeople often cite as a main selling point. However, when you take withdrawals, any net returns you received are taxed as ordinary income. Depending on your tax bracket, that could be a lot higher than the capital gains tax rate, which can be a much lower 0%, 15%, or 20%.

5. Lack of Liquidity: Most annuities come with a surrender fee, which you are forced to pay if you take a withdrawal within the first few years of your contract (many contracts have surrender fees for 7-10 years).

In our final article in the series, we will look at a live example of an annuity previously purchased by one of our clients (names will be removed to respect the client's privacy).

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