MAY 2021 WEBINAR

Wealth Strategies Post-Pandemic

FINANCIAL STRATEGIES POST-PANDEMIC WEBINAR RECAP

The last year has brought about a great deal of change to our lives—and with that change comes adjustments. From lifestyle to remote work and learning to spending priorities, debt management and emergency reserves so much has changed since the beginning of the pandemic.

Our client FinDec took this issue head-on and discussed financial strategies to consider following the pandemic.

Raquel Morris, Chief Operating Officer, and Tolen Teigen, Chief Investment Officer at FinDec broke down the current financial trends they're seeing and some next steps to take on FinDec's latest webinar: Financial Strategies Post-Pandemic. If you missed the webinar but want to know what these financial experts had to say, we've got you covered.

PERSONAL GOALS AND BUDGETS

Whenever you have a life-changing event, you should update your financial plan. We can all agree the pandemic was quite life-changing. Adjusting or modifying your financial goals to reflect your current situation helps create a clear, realistic financial path forward. Teigen recommended you sit down and reevaluate what you want to spend your money on—are there monthly subscriptions you used to need but no longer have a use for? Certain things you're not spending money on anymore? This is a fresh starting point to shift your current budget or create a new one. Remember, every dollar should have a purpose.

Life is unpredictable and while you can't always see what's coming next, you can prepare for it by having proper emergency reserves established. Those who had many months of savings stored away didn't have to panic as much when the stock market crashed or when companies began mass layoffs. Those who were not as prepared had to rely on unemployment or government-funded stimulus checks. Regardless of which situation you were in this past year, having a cushion of savings to fall back on helps alleviate stress and prepare for unexpected changes in income or employment. If you had to spend all your emergency reserves or never had any, to begin with, now is the time to reevaluate your finances and start budgeting for the next rainy day.

Lastly, take into consideration that the pandemic is a temporary situation and life will resume to "normal" once again. This means that even though you hardly spent any money on gas or a train pass this year, you may have to next year— so don't cut it out of your budget quite yet.

Additionally, people have built up a demand for things they haven't been able to do for the past year like travel, visit restaurants and go to concerts, and, as we all know, those things add up! The transition back to pre-pandemic life will likely be abrupt and definitely something you need to consider when shifting your finances.

EFFECTS OF COVID ON LIFE INSURANCE

Life insurance has been a very hot topic due to the pandemic since everyone wants to make sure loved ones are taken care of in the event of a tragic sickness. This has caused a lot of life insurance companies to increase their prices and processing time and be more selective in order to reduce their liabilities.

For example, many won't even issue policies to individuals over 75. The bottom line is— if you're thinking about getting life insurance, you're going to want to act on it sooner than later because it's going to get harder and harder to obtain.

CHANGES TO TAXES

The number one question that FinDec receives is regarding taxes. The reality is there are a lot of unknowns about what is to come. President Biden's American Families Plan, released in April, would increase taxes on the top 1% of earners and raise levies on capital gains and ordinary income on those earning $400,000. It would also increase tax audits on top earners.

As reported on CNBC.com, the richest one percent of people in the U.S.—who have an average income of $2.2 million—would take on most of the burden. Two-thirds of earners in this group would see their taxes increase by an average of $159,000 per year according to the Institute on Taxation and Economic Policy. That's because the top income tax rate would return to 39.6%.

But as Teigen pointed out in the webinar, labeling this as a raise is a bit misleading. The rate was at 39.6% prior to the 2017 Tax Cuts and Jobs Act, which is set to expire in 2025. Essentially, the American Family Plan moves up the timetable and wipes out the 2017 tax cut.

Perhaps the biggest point of contention among those it would impact is the increase in capital gains tax. Biden's plan would raise the top tax rate on long-term capital gains to 39.6% — the same rate as their wages. (Including a 3.8% Medicare surtax, they would pay a 43.4% top rate.) That's nearly double the current rate of 20% (or, 23.8% including the surtax on net investment income).

It would impact people making an annual income of more than $1 million—the top 0.3%—who sell stocks, bonds and other assets held in taxable accounts for a gain. Investments account for close to half of the income of people in this tax group.

Another big change proposed in the plan is how wealthy estates pay tax on appreciated assets at death. It would get rid of the so-called step-up in basis at death for any gains of more than $1 million.

As CNBC describes it, "the appreciation of any unsold assets — also known as unrealized gains — would be subject to capital gains tax upon the owner's death. (Again, this would be as high as 43.4% for the wealthiest households.)"

Wealthy estates can exclude up to a certain amount because of existing tax breaks. Essentially, if a married couple receives gains of $5 million, the estate would not have to pay taxes on the first $2.5 million in gains.

NAVIGATING MARKETS: INFLATION

Inflation is widely discussed in the media and depending on who you listen to, you're going to hear different things. Teigen noted that, contrary to popular belief, the economy is not experiencing out-of-the-ordinary inflation rates due to the pandemic. Instead, the higher prices we are experiencing are due to supply chain issues and a shortage of raw materials, not inflation.

The Fed's job is to maintain inflation because they want to keep the economy going at a consistent growth rate. One might expect that the U.S would be experiencing large, uncontrolled inflation due to the chaos of the last year, but instead, we're actually having the opposite issue— the Feds are having trouble reaching their inflation target numbers. There's no saying how long exactly this will last, but it is expected that these issues will resolve themselves once things open back up.

NAVIGATING MARKETS: CRYPTO

Conversations about cryptocurrency have taken the world by storm. While it sounds like an interesting and exciting thing to get in on, you should first understand what it is. Crypto was originally created as a form of currency for the dark web because it has no trace or paper trail on who it is from. This digital currency has blown up this past year and has truly become the disruptor to how we view currency and transactions. But is it here to stay?

Countries around the world are exploring whether or not they can adopt crypto as a legal form of currency. However, both the U.S and China said they will not tolerate crypto at least until it is properly regulated. Since Bitcoin was founded in 2009, hundreds of other online currencies have appeared and there's no saying which will still be around in the near future. The advice Teigen suggested was to be cautious of what you're buying and make sure you're not using the money you don't need tomorrow.

NAVIGATING MARKETS: REAL ESTATE

With many companies deciding they will close their office doors forever, some working to hybrid schedules or even continuous work from home— the commercial real estate market is going to feel some pain for a bit longer in some parts of the country. Companies went from expanding office footprints to empty buildings in a matter of weeks and there's no saying if things will ever go back to what they used to be.

We are also seeing a huge change in the residential real estate market with the flood of people to the suburbs from the city looking for more space, community and safety. Deciding whether to buy the property or continue renting is something many people are facing at the moment. Rent prices and property are gradually increasing and are projected to for the next year or two. If you are looking for something long-term and want a fixed price instead of increasing rent, buying may be a better option. But, if you're not sure if you want to commit to a forever home quite yet, renting may be the most appropriate choice.

WHAT NOW?

As we near the end of the pandemic... what now? Well for starters, some good news— you likely don't have to worry about a recession—at least for the next year and a half to two years. However, that doesn't mean you shouldn't have a plan B in place for the next time the economy turns.

Teigen said to reevaluate your goal as things change in your life and make sure your budget reflects the lifestyle you're living. Ask yourself—Is this decision going to get me closer or further away from reaching my goals.

On a final note, Teigen said to not worry about FOMO (Fear of Missing Out) when it comes to the stock market, it historically goes up and down. Play the stock market based on your risk tolerance, not anyone else's and don't make emotional decisions. The stock market shouldn't make you lose sleep at night.

Always keep your long-term goals in mind and remember that steady wins the race!