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This issue of our newsletter highlights several topics that have been top of mind for our clients recently. We share key retirement plan and tax numbers for 2021 and some thoughts about inflation - currently muted, but maybe in our future in the next several years as the economy strengthens.

We want to help you have meaningful conversations with your family regarding money and money values, so we include an article to help you start thinking about having a conversation or series of conversations.

Maintaining a good credit score helps facilitate the move to the next home or refinancing your current home or obtaining future credit.

We welcomed 2021 with hopefulness regarding being able to gather together safely, travel, and resume normal activities of life as we knew them a year ago. In the meantime, we continue to meet with our clients via Zoom so we can share information and ideas freely. Call or email us with your questions or to schedule our next conversation.

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.

Sharing Your Money Values Can Be Part of Your Legacy

When it's time to prepare the next generation for a financial legacy, you might want to bring your family members together to talk about money. But sitting down together isn't easy, because money is a complicated and emotionally charged topic. Rather than risk conflict, your family may prefer to avoid talking about it altogether.

If your family isn't quite ready to have a formal conversation, you can still lay the groundwork for the future by identifying and sharing your money values — the principles that guide your financial decisions.

Define Your Own Values

What does money mean to you? Does it signify personal accomplishment? The ability to provide for your family? The chance to make a difference in the world? Is being a wise steward of your money important to you, or would you rather enjoy it now? Taking time to think about your values may help you discover the lessons you might want to pass along to future generations.

Respect Perspectives

The unspoken assumption that others share your financial priorities runs through many money-centered conversations. But no two people have the same money values (even relatives). To one person, money might symbolize independence; to another, money equals security. Generational differences and life experiences may especially influence money values. Invite your family members to share their views and financial priorities whenever you have the opportunity.

See Yourself as a Role Model

Your actions can have a big impact on those around you. You're a financial role model for your children or grandchildren, and they notice how you spend your time and your money.

Look for ways to share your values and your financial knowledge. For example, if you want to teach children to make careful financial decisions, help them shop for an item they want by comparing features, quality, and price. If you want teenagers to prioritize saving for the future, try matching what they save for a car or for college. Teaching financial responsibility starts early, and modeling it is a lifelong effort.

Practice Thoughtful Giving

How you give is another expression of your money values, but if a family member is the recipient, your generosity may be misconstrued. For example, your adult son or daughter might be embarrassed to accept your help or worried that a monetary gift might come with strings attached. Or you may have a family member who often asks for (or needs) more financial support than another, which could lead to family conflicts.

Defining your giving parameters in advance will make it easier to set priorities, explain why you are making certain decisions, and manage expectations. For example are you willing and able to:

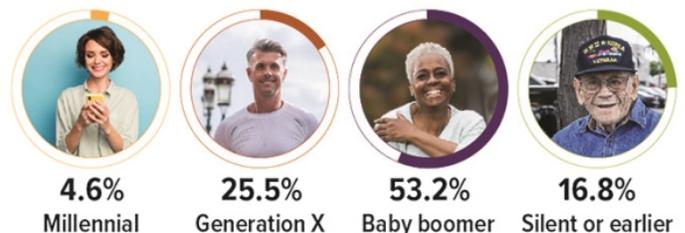
- Help fund a college education?
- Provide seed money for a small business?
- Help with a down payment on a home?
- Pay for medical expenses?
- Contribute to an account for a family member with special needs?
- Offer nonfinancial help such as child care or transportation?

There are no right or wrong answers as long as your decisions align with your financial values and you are sure that your gift will benefit both you and your family member. Maintaining consistent boundaries that define what help you are willing and able to provide is key. Gifts that are not freely given may become financial or emotional obligations that disrupt family relationships.

The Great Wealth Transfer

Seventy percent of U.S. household wealth is held by older generations. Although younger people may be far behind today, they stand to inherit much of this wealth in the coming decades, while also accumulating wealth through their own efforts.

Percentage of U.S. household wealth, by generation



Source: Federal Reserve, 2020 (Q2 2020 data)

Reveal Your Experiences with Money

Being more transparent about your own financial hopes and dreams, and your financial concerns or struggles, may help other family members eventually open up about their own.

Share how money makes you feel — for example, the satisfaction you felt when you bought your first home or the pleasure of giving to someone in need. If you have been financially secure for a long time, your children may not realize how difficult it was for you, or for previous generations, to build wealth over time. Your hard-earned wisdom may help the next generation understand your values and serve as the foundation for a shared legacy.

How to Help Maintain a High Credit Score

During the holiday shopping season, your credit score is probably the last thing on your mind. But as you start your seasonal spending, remember to use credit wisely so you can start the new year with a healthy credit score. The following tips can help you maintain or potentially improve your credit score throughout the holidays and beyond.

Know how your credit score is calculated. The most common credit score is expressed as a three-digit number ranging from 300 to 850. (Some lenders may calculate it differently, but this should be a good guideline.) The score is derived from a formula using five weighted factors: payment history (35%), amounts owed (30%), length of credit history (15%), new credit (10%), and types of credit in use (10%).¹ Keeping these components in mind can help you stay on track with your credit.

Make payments on time. Set up alerts for every credit card you have so you don't miss notifications of charges, statements, or due dates. To help avoid missed payments, set up automatic payments. If you do miss a payment, contact the lender and bring the account up-to-date as soon as possible.

Keep credit-card balances low. If you carry a balance, consider paying down the cards with the highest balance-to-credit limit ratio first while keeping up minimum (or higher) payments on others. Don't "max out" your available credit.

Be careful about opening and closing accounts. Some retailers may offer discounts on purchases if you sign up for a store credit card, but store cards often have high interest rates and low credit limits. Unless you plan on shopping regularly at that store and the card offers useful bonuses or discounts, avoid applying for new credit cards solely to save money on purchases. Likewise, try not to close multiple accounts within a short period of time — this could actually hurt your credit score.

Research before using credit boosting services. You might be tempted to sign up for a free service that promises to instantly boost your credit score, but they're usually only worth considering if you have a thin credit file and/or a low credit score. These services can't fix any late payments you've made or reduce the impact of an excessive level of debt.

Monitor your credit report regularly. You can order a free credit report annually* from each of the three major consumer reporting agencies at annualcreditreport.com. If you find incorrect information on your credit report, contact the reporting agency in writing, provide copies of any corroborating documents, and ask for an investigation.

**Due to the COVID-19 pandemic, Equifax, Experian, and TransUnion are offering free weekly online reports through April 2021.*

1) Fair Isaac Corporation, 2020

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