1919 INVESTMENT COUNSEL
Complexity to Clarity

FINANCIAL PLANNING IN A POST-PANDEMIC WORLD

As we near the end of 2021, we reflect on the enormously challenging past two years. In addition to the loss of human life and livelihoods, the global pandemic ignited a period of extraordinary volatility in the markets. It has also disrupted the way we work and live, and pushed us to reflect on the most important matters.

While the pandemic is not yet over, we are eyeing a renormalized life in the "post-pandemic" period, which may include managing the continued presence of the COVID-19 virus. As we test the waters of reopening, a dynamic financial plan is more important than ever in a period of continued uncertainty.

At 1919 Investment Counsel, we continue to endure the crisis professionally and personally alongside our clients. We look forward to walking with you into the rebuilding period, better equipped than ever to help you reach your goals.

Here is our best guidance to re-establishing a robust financial plan in a post-pandemic world.

Reassess your values

The pandemic has forced many of us to reevaluate whether our financial goals still reflect our truest values and to ask ourselves: What is meaningful to me? How do I ensure that my financial goals align with my values? The answers to these questions are the crux of a financial plan, and should inform any actions you take.

If the pandemic has helped clarify your priorities in how you allocate your time and money, this will require reworking your financial plan, and entails adjusting a number of variables including your savings goal, investment plan, and tax strategies to align with your new objectives. In addition, you may feel compelled to accelerate gifts to your family and community during your lifetime instead of as a bequest in your estate plan.

We often describe a financial plan as a roadmap that guides you to your goals. After the experiences of the past two years, it is important to confirm if your destination has changed—this will guide the rest of our financial planning.

Determine your cash flow needs

Many Americans delayed a significant expense during the pandemic, and this deferral may result in post-pandemic spending that is higher than average. You may have accumulated more savings than pre-pandemic years with less spending on travel, dining, and other forms of leisure. As entertainment and travel industries pick up again, you may find yourself now

spending more than your previous baseline. It is important to evaluate whether this is a temporary pattern or the start of a new standard of living. In addition, the prices of many goods and materials are higher today than two years ago due to shortages, supply chain disruptions, and inflation.

If you have an employer-sponsored retirement plan such as a 401(k) or 403(b), review your automatic contributions or salary deferrals. If you adjusted your contributions to free up more cash flow last year, you should revisit to make sure you are back on track.

Your spending rate has probably changed during the pandemic and will likely continue to change as we adapt to new norms. Identify any gaps between your anticipated and actual cash flow needs, and use it as an opportunity to prepare for a post-pandemic life.

KNOWING THE COST OF YOUR DESIRED QUALITY OF LIFE IS THE FOUNDATION OF A FINANCIAL PLAN THAT IS RELEVANT, FLEXIBLE, AND REALISTIC.

Charitable giving

The annual Giving USA Foundation report showed that total charitable donations rose 5% in 2020, reaching a record of $471.4 billion. Individuals increased giving by 2.2%, and planned giving increased by 10.3%. In the midst of great uncertainty last year, individuals and institutions increased charitable giving overall. Americans have continued to be generous in charitable giving, a key part of financial planning. Having the right tools in place can amplify the positive impact of your dollars.

If you give regularly to charity, consider setting up a charitable giving vehicle called a Donor Advised Fund (DAF), which can yield many benefits to you as the donor and for the charities:

1. You can donate appreciated stock to a DAF and get a tax deduction for the fair market value of the securities (up to 30% of your Adjusted Gross Income). A DAF allows you to take a larger than normal charitable contribution deduction in a year when you may also have higher taxable income.
2. The strategy of donating appreciated assets enables the end-charity to receive a more significant donation over time than it normally would, since a public charity does not need to pay capital gains taxes. While this result can be accomplished as a direct contribution to the qualifying organization, a DAF provides an attractive and flexible way to facilitate your giving, particularly if you donate to several charities.
3. A DAF enables you to send cash grants to charities at your own pace in future years. This allows you to de-couple the timing of the deduction you receive and the grants made to the end charity. This can be helpful with exceeding standard deductions and enabling you to itemize on your tax returns.

A DAF PROVIDES AN ATTRACTIVE AND FLEXIBLE WAY TO FACILITATE YOUR GIVING, PARTICULARLY IF YOU DONATE TO SEVERAL CHARITIES.

A DAF is simple to set up and offers tremendous value in harnessing the tax benefits of charitable gifting while providing a platform for you to support your philanthropic organizations.

As tax rates are poised to change next year, a DAF only increases in relevance as a charitable gifting tool.

Gifting to individuals

If you have decided that gifting to loved ones during your lifetime is important, there are some factors to consider.

The annual gift exclusion enables each person to give $15,000 to another individual without affecting the giver's lifetime gift tax exemption, which is currently $11.7 million per person. In other words, the $15,000 is excluded from reducing your lifetime gift tax exemption. Thus you can give $15,000 to an unlimited number of people, while maintaining your full lifetime exemption. Any amount given in excess of the exclusion in a tax year to the same recipient would reduce your lifetime exemption.

There are special rules that allow you to gift above the annual exclusion without impacting your lifetime exclusion. If you contribute to a child's education fund, you may contribute up to five times the annual gift exclusion in one year thanks to a special gift tax rule for 529 plans. This means you can contribute $75,000 into anyone's 529 plan without exceeding the annual gift exclusion. This large gift will use up to five years' worth of annual gift exclusions, so you cannot make another gift to the same recipient without impacting your lifetime gift exemption until five years later. A couple can double their gifting to $30,000 per year per donee. When applied to the special 529 front-loaded option, a married couple can gift $150,000 to an individual's 529 plan without touching their lifetime gift exemption. If you can afford to do this for more than one person, the tax-free gifting potential is even more impactful.

In a crisis, cash is King…

Historically low yields on cash and cash equivalents have discouraged many investors from holding enough cash to cushion unexpected expenses. This may be particularly true when one partner has a more stable job than their spouse does or when both parties earn significant income. However, the pandemic upended many industries, resulting in a double-income loss for some households. Consequently, many people realized that they need more cash on hand to weather the storm.

A sudden market downturn, even if anticipated, can still come as a shock. The events of last year highlighted the importance of a financial safety net. Although interest rates on Treasuries, money market funds, and other cash proxies remain at historic lows, the primary purpose of a cash cushion is not to maximize returns. Rather, it provides liquidity in times of crisis, while allowing you to preserve your portfolio.

WE ADVISE BUILDING A LARGER CASH CUSHION BEYOND THE EXISTING 'RULE' OF 3-6 MONTHS' WORTH OF EXPENSES, EVEN IF YOU ARE A TWO-INCOME HOUSEHOLD.

While the U.S. government provided stimulus packages, forgivable loans to businesses, rent forbearance, and temporary relief for retirement account withdrawals and student loan interest, these targeted measures did not come in time to meet immediate expenses. We advise building a larger cash cushion beyond the existing 'rule' of 3-6 months' worth of expenses, even if you are a two-income household. This "rainy day" fund should be earmarked or held in a separate account.

…however, prevailing low rates rule.

The continued low interest rate environment poses challenges for those seeking liquidity, as well as options for cash holdings. While a cash cushion is extremely important, keeping cash in excess of the recommended amount provides little to no protection from inflation, exposing investors to loss of purchasing power.

The prevailing low interest rate environment also makes selling investments less attractive. Not only does a sale incur a capital gains tax, you would lose income by selling a dividend-paying stock. Some of the more expensive or inefficient ways to access liquidity include:

- Selling appreciated stocks or mutual funds and paying capital gains taxes
- Taking a withdrawal from or loan against your 401(k) plan or other qualified plan, which can incur income and penalty taxes
- Amassing credit card debt
- Withdrawing excess 529 funds for nonqualified purposes

Before selling assets in your portfolio or borrowing against your retirement account, consider options that avoid creating a tax impact or disrupting your investment plan. The positive aspect of low interest rates is the inexpensive cost of borrowing. Lower-cost sources of liquidity may include:

- **Home Equity Line of Credit (HELOC) –** a non-purpose line of credit that uses the equity in your home as collateral. This can be an attractive option for short-term needs such as a home renovation, and may qualify for a tax-deduction if funds are used to substantially improve or build a home

- **Pledged Asset Line (PAL) –** a flexible, non-purpose line of credit that allows you to borrow against your non-retirement investment accounts and often offers favorable borrowing rates that are tied to an index
- **Life Insurance –** a whole life policy may have accumulated cash value over the years and may be borrowed against or cashed out
- **Family loans –** loans between family members can offer savings since the IRS has stipulated lower rates on intra-family loans compared to rates on commercial loans

If these options are not available to you, you can still evaluate the less efficient options. Each person's situation is unique, and the cost of borrowing is particularly sensitive to individual factors.

BEFORE MAKING A MOVE TO ACCESS LIQUIDITY, CONSIDER ALL YOUR OPTIONS, INCLUDING SOME OUT-OF-THE-BOX IDEAS THAT MAY GO AGAINST TRADITIONAL WISDOM.

If you have well-funded 529 plans that were not fully used by the original beneficiaries, you may have some added flexibility. After exploring and exhausting all possible options for qualified distributions from the 529 plan, which preserves the tax-free treatment of earnings, you can tap the 529 plan to fund living expenses. Even with a 10% penalty on earnings for non-qualified 529 withdrawals, tapping a 529 plan may be a better option than invading a retirement account early.

Before making a move to access liquidity, consider all your options, including some out-of-the-box ideas that may go against traditional wisdom.

Manage your debt

When appropriately managed, debt is a powerful tool for building wealth. If you currently have debt, consider options that could save you money in the long run. For example, you may be able to refinance your mortgage to lock in current, historically low interest rates. If you have several types of debt, consider the tax consequences when determining which ones to reduce or pay down.

WHEN APPROPRIATELY MANAGED, DEBT IS A POWERFUL TOOL FOR BUILDING WEALTH.

If you have a secured line of credit, whether in home equity or another type of collateral, consider the after-tax cost of this debt. Mortgages offer tax benefits on loans up to $750,000 (or up to $1 million if established before January 1, 2020), so even if the rate is slightly higher than the floating rate of a HELOC or PAL, the tax benefit of a mortgage could be significant enough to tilt your decision. This is especially true if you are in a high-income tax state as mortgage interest is still tax deductible, whereas state and local tax deductions are capped at $10,000 under current law).

Capture tax savings

If you have experienced career changes during the pandemic, there may be a host of tax benefits now available to you. For example, as a sole proprietor, you may have the potential to deduct healthcare expenses, including Medicare Part B and Part D premiums and supplemental programs.

If you have started your own business as sole proprietor, you can set up a retirement plan suited for your expected earnings and the size of your company. A Solo 401(k) may allow you to contribute as both an employee and an owner, and will not be limited to 20 or 25% of your income as a SEP IRA would. However, a SEP IRA is easier to set up than a Solo 401(k). If you expect to put away significant amounts of money, a Defined Benefit Plan offers massive tax benefits in your highest earning years while building your own "pension" to fund your future years.

Physical working environments for some careers also changed during the pandemic, with increased opportunities to work remotely. Remote work offers many benefits, including work-life balance, flexibility, and even some cost savings (such as commuting). Be aware that state taxes could still apply if you've decided to become more of a digital nomad. For example, if you sublet your apartment in NYC and work elsewhere, you may still be subject to NYC taxes. To truly take advantage of tax savings in another

(lower tax) state, you have to fully move (sell your home/end your lease/re-establish residency elsewhere).

There are ways to accomplish your professional and personal goals and maximize your flexibility in the future. We encourage you to engage with us in exploring these options.

Harness market volatility

Market downturns can be difficult to endure as your account values drop over a short period. However, there are strategies that work well during periods of market volatility when many company stocks are potentially oversold. If you have cash in addition to your "rainy day" cushion, a market downturn provides an excellent opportunity to buy quality stocks at lower prices. Timing a large purchase of securities during a market pullback is very difficult to do and unsustainable as a long-term investment strategy. A strategic investment plan captures additional value in market pullbacks by investing continually across a long time horizon.

THERE ARE STRATEGIES THAT WORK WELL DURING PERIODS OF MARKET VOLATILITY WHEN MANY COMPANY STOCKS ARE POTENTIALLY OVERSOLD.

Additionally, a down market is a great time to convert a portion of your traditional IRA to a Roth IRA. You can even move shares from a traditional IRA to a Roth IRA to complete the Roth conversion, instead of selling your positions in the IRA first to convert cash. Regardless of whether you convert shares or cash, a full or partial Roth conversion during a market downturn means a smaller tax bill from that conversion. When markets recover, investments in your Roth IRA will continue to grow tax-free (for qualified withdrawals). Having a Roth IRA in addition to your traditional IRA and 401(k) gives you more control over your taxes, especially after age 72, when you must begin Required Minimum Distributions (RMDs) from your traditional IRAs.

Whether you add to investments, convert to a Roth IRA, sell a portion of a concentrated position, take losses to offset capital gains, or a combination of these strategies, keep in mind that volatility is a normal aspect of investing in the stock market, and may even present opportunities. There are myriad ways that a bear market can create opportunities to enhance your financial position in the long term, even if your investment accounts are momentarily lower.

VOLATILITY IS A NORMAL ASPECT OF INVESTING IN THE STOCK MARKET, AND MAY EVEN PRESENT OPPORTUNITIES.

Income protection and life insurance

While it is never easy to think about the death or disability of a loved one, the past two years have highlighted the necessity of considering worst-case scenarios in your financial plan. For many of us, the unexpected death of a family member would have a devastating emotional and financial impact. In a post-pandemic world, it is more important than ever to cushion your plan from an unexpected financial blow.

If you have existing life insurance, you can start there. Consider when the insurance was purchased and if your situation has changed. If you have additional dependents now, have a large mortgage, or have aging family members to care for, then your existing coverage may not be enough. Determine which expenses need to be covered in the event of your or your partner's premature death. It is common to cover mortgages and other debt and future education expenses for dependents.

IN A POST-PANDEMIC WORLD, IT IS MORE IMPORTANT THAN EVER TO CUSHION YOUR PLAN FROM AN UNEXPECTED FINANCIAL BLOW.

In addition to income replacement, there are valuable non-financial contributions to include in determining life insurance needs. For example, the need for additional childcare, or the cost of professionals to perform work or home maintenance that you or your partner currently handle. This can be difficult to

quantify, but chances are, there is tremendous value in contributions of time and skill that would be expensive to cover with outside help. Factoring this into the equation when updating your life insurance coverage should help further mitigate financial strain in an already difficult situation.

Conversely, if you no longer have the same insurance needs, you may instead have options to reduce your coverage and premium cost. You may have cash value built up in a whole or universal life policy that you can redeem or borrow against, or consider exchanging your policy for an annuity. You can ask your insurance company for an "in-force illustration," which will provide you with an up to date report on the health of your policy and your options. If you no longer have a need for any death benefit coverage, you could surrender your policy and access the cash value. You may hear of the ability to sell your policy and receive cash payments instead. This last option may be risky and require that you bring in an experienced and impartial insurance consultant.

Life and disability insurance coverage is one of the most impactful things you can do to protect yourself and your family from a large financial setback. We will work with you to ensure that your financial picture accurately includes the need for and cost of insurance.

Revisit estate plans and beneficiary designations

One of the most important and easiest things you can do for your estate plan is to check the beneficiary designations on all of your retirement accounts and life insurance policies. Ensure they are still correct, especially if it has been several years since you last checked, and if there has been a major life change. Be sure to add contingent beneficiaries where possible.

We also advise that you review any Transfer on Death (TOD) designations you have made to confirm that they are consistent with your estate plan. Beneficiary designations are usually easy to change and can be done quickly online. Outdated or erroneous beneficiary designations can cause tremendous legal and tax problems in the event of your death as they supersede your will. Regularly checking your beneficiaries is well worth the time.

We also advise updating your will and revocable trust. If you have not had your estate plan updated recently or would like a quick review, please reach out to us.

The pandemic has underscored the importance of having a health care proxy and an advanced directive, including a living will. Your health care proxy enables you to name a trusted individual to make health care decisions on your behalf. A living will details your wishes for medical treatment if you are incapacitated. A Durable Power of Attorney is also an important financial planning tool that allows a trusted individual to act on your behalf as to financial matters.

These documents are important to keep up to date, but especially after a major life change and during periods of upheaval.

Re-Building Together

In examining these topics, we aim to help you reinforce the key areas of your financial armor and be better equipped for future curveballs:

- Set up and fund a Donor Advised Fund with appreciated and/or concentrated stock
- Contribute to a 529 plan to meet education saving goals
- Use low-cost loans to solve cash needs
- Evaluate your life insurance needs and coverage
- Harness market volatility
- Consider strategic Roth conversions
- Check beneficiary designations
- Review and update your estate plan

The pandemic is a crisis that struck us at the intersection of our health, finances, relationships, and daily lives. This disruption has shone a light on what is truly important to each of us, creating an opportunity to reevaluate our goals. At 1919 Investment Counsel, it is our privilege to work with you and your family to build a more fulfilling and resilient financial future.

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Principal, Senior Client Advisor

Lu Han is a Principal and Senior Client Advisor at 1919 Investment Counsel. Her primary focus is financial planning for individuals and families. Lu takes a comprehensive approach to assessing all aspects of a client's financial situation, including retirement planning, goal funding, cash flow analysis, insurance reviews, college savings, and estate planning. She partners with Portfolio Managers to identify and integrate meaningful solutions with investment management, and to interface with clients on a regular basis to provide ongoing financial planning services as a part of the firm's wealth management services.

Lu joined the firm from UBS Financial Services Inc., where she was a Financial Planning Specialist working with financial advisors to deliver planning and advice to clients. Lu is a Certified Financial Planner®, a CFA Charterholder, and holds a B.A. in English and Psychology from Barnard College. She enjoys rock climbing, hiking, running, and traveling.

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ABOUT 1919 INVESTMENT COUNSEL

1919 Investment Counsel, LLC is a registered investment advisor. Its mission for more than 100 years has been to provide counsel and insight that help families, individuals, and institutions achieve their financial goals. The firm is headquartered in Baltimore and has regional offices across the country in Birmingham, Cincinnati, New York, Philadelphia and San Francisco. 1919 Investment Counsel seeks to consistently deliver an extraordinary client experience through its independent thinking, expertise and personalized service. To learn more, please visit our website at www.1919ic.com.

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