Focus on Financial FItness

Linden Financial Group
108 Main Street • Amesbury • MA • 01913
978-388-3468 • 978-388-3468
plan@lindenfinancialgroup.com • LindenFinancialGroup.com

Are You Prepared for Pet Care Costs?

Pets can be wonderful companions. If you're spending more time alone or working from home, you may be thinking about adopting a pet yourself. But before you bring home a new dog or cat, you should consider — and not underestimate — the time and money you might spend on your four-legged friend.

Annual pet expenses (reported by owners)

	Dogs	Cats
Surgical vet visits	$426	$214
Routine vet visits	$212	$160
Food and treats	$335	$286
Boarding	$229	$120
Grooming	$73	$43
Toys	$48	$31

Source: 2019-2020 National Pet Owners Survey, American Pet Products Association

A Financial Wellness Plan Can Help Pave the Road to Retirement

If we've learned any lesson over the past year, it's that no matter how carefully we plan and prepare, we'll likely encounter unexpected hurdles. While a global pandemic has certainly underscored the need to pay close attention to our physical wellness, it has also revealed the need to shore up our financial wellness.

According to PwC's 9th Annual Financial Wellness Survey conducted in January 2020, financial matters were the top cause of stress for employees even well before the pandemic hit in earnest. More than one-third of full-time employed millennials, Gen Xers, and baby boomers had less than $1,000 in emergency savings. Only 29% of women said they would be able to cover their basic necessities if they found themselves out of work for an extended period, compared with 55% of men. And more than half of millennials and Gen Xers and 35% of baby boomers said they would likely use their retirement funds for something other than retirement, with most noting it would be for an unexpected expense or medical bills.[1]

Although tapping your retirement savings can help you get through a crisis, it can hinder your ability to afford a comfortable retirement. Having a plan to guard your financial wellness throughout your working years can help you avoid putting your retirement at risk.

What Is Financial Wellness?

The Consumer Financial Protection Bureau (CFPB) defines financial well-being as:[2]

1) Having control over day-to-day and month-to-month finances. In order to achieve this, your expenses need to be lower than your income.

2) Maintaining the capacity to absorb a financial shock. This typically refers to having adequate emergency savings and insurance.

3) Being on track to meet financial goals, meaning you have either a formal or informal plan to meet your goals and you are actively pursuing them.

4) Having the financial freedom to make choices that allow you to enjoy life, such as a splurge vacation.

The CFPB has identified several key factors that contribute to an individual's ability to achieve financial well-being. Among them are: (1) having the skills needed to find, process, and use relevant financial information when it's needed; and (2) exhibiting day-to-day financial behaviors and saving habits.

Assistance Is Available

Many employers have begun offering financial wellness benefits over the past decade. These programs have evolved from a focus on basic retirement readiness to those addressing broader financial challenges as health-care costs, general finance and budgeting, and credit/debt management.[3]

If you have access to work-based financial wellness benefits, be sure to take time and explore all that is offered. The education and services can provide valuable information and help you build the skills to make sound decisions in challenging circumstances.

In addition, a financial professional can become a trusted coach throughout your life. A qualified financial professional can provide an objective third-party view during tough times, while helping you anticipate and manage challenges and risks and, most important, stay on course toward a comfortable retirement.

1) PwC, May 2020

2) Consumer Financial Protection Bureau, January 2015

3) Employee Benefit Research Institute, October 2020

The Four Elements of Financial Well-Being

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

Source: CFPB, September 2017

Test Your Knowledge of College Financial Aid

Financial aid is essential for many families, even more so now in light of COVID-19. How much do you know about this important piece of the college financing puzzle?

1. If my child attends a more expensive college, we'll get more aid

Not necessarily. Colleges determine your expected family contribution, or EFC, based on the income and asset information you provide on the government's financial aid form, the Free Application for Federal Student Aid (FAFSA), and, where applicable, the College Scholarship Service (CSS) Profile (a form generally used by private colleges). Your EFC stays the same no matter what college your child attends. The difference between the cost of a particular college and your EFC equals your child's financial need, sometimes referred to as "demonstrated need." The more expensive a college is, the greater your child's financial need. But a greater financial need doesn't automatically translate into a bigger financial aid package. Colleges aren't required to meet 100% of your child's financial need.

Tip: Due to their large endowments, many elite colleges offer to meet 100% of demonstrated need, and they may also replace federal student loan awards with college grants in their aid packages. But not all colleges are so generous. "Percentage of need met" is a data point you can easily research for any college. This year, though, some colleges that are facing lower revenues due to the pandemic may need to adjust their financial aid guidelines and set higher thresholds for their aid awards.

2. I lost my job after submitting aid forms, but there's nothing I can do now

Not true. Generally, if your financial circumstances change significantly after you file the FAFSA (or the CSS Profile) and you can support this change with documentation, you can ask the financial aid counselor at your child's school to revisit your aid package; the financial aid office has the authority to make adjustments if there have been material changes to your family's income or assets.

Amid the pandemic, annual income projections for some families may now look very different than they did two years ago based on "prior-prior year" income (see graphic). Families who have lost jobs or received cuts in income may qualify for more aid than the FAFSA first calculated.

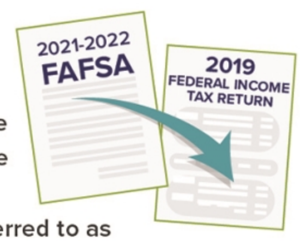
Tip: Parents should first check the school's financial aid website for instructions on how to proceed. An initial email is usually appropriate to create a record of correspondence, followed by documentation and likely additional communication. Keep in mind that financial aid offices are likely to be inundated with such requests this year, so inquire early and be proactive to help ensure that your request doesn't get lost in the shuffle.

3. My child won't qualify for aid because we make too much money

Not necessarily. While it's true that parent income is the main factor in determining aid eligibility, it's not the only factor. The number of children you'll have in college at the same time is a significant factor; for example, having two children in college will cut your EFC in half. Your assets, overall family size, and age of the older parent also factor into the equation.

Tip: Even if you think your child won't qualify for aid, there are still two reasons to consider submitting the FAFSA. First, all students, regardless of family income, who attend school at least half-time are eligible for unsubsidized federal Direct Loans, and the FAFSA is a prerequisite for these loans. ("Unsubsidized" means the student pays the interest that accrues during college, the grace period, and any loan deferment periods.) So if you want your child to have some "skin in the game" by taking on a small student loan, you'll need to submit the FAFSA. Second, the FAFSA is *always* a prerequisite for college need-based aid and is *sometimes* a prerequisite for college merit-based aid, so it's usually a good idea to submit this form to maximize your child's eligibility for both.

Prior-Prior Year for Income



The FAFSA relies on current asset information (as of the date you fill out the form) and income information based on your tax return from two years prior, referred to as the "prior-prior year." For example, the **2021-2022 FAFSA** relies on information from your **2019** tax return.

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4. We own our home, so my child won't qualify for aid

It depends on the source of aid. The FAFSA does not take home equity into account when determining a family's expected family contribution, so owning your home won't affect your child's eligibility for aid. The FAFSA also excludes the value of retirement accounts, cash-value life insurance, and annuities.

Tip: The CSS Profile does collect home equity and vacation home information, and some colleges *may* use it when distributing their own institutional need-based aid.

Tax Filing Information for Coronavirus Distributions

In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The legislation included a provision that allowed qualified retirement plan participants and IRA account holders to take penalty-free early distributions totaling no more than $100,000 between January 1 and December 31, 2020. If you took advantage of this measure, here's what you need to know for tax filing.

What Is a Coronavirus Distribution?

In order for a distribution to be qualified under the CARES Act, it must have been made to a qualifying individual before December 31, 2020. You qualify if you, your spouse, or dependents were diagnosed with the virus, or if you, your spouse, or someone who shares your principal residence experienced a pandemic-related financial setback as a result of:

- A quarantine, furlough, layoff, or reduced work hours
- An inability to work due to lack of child care
- Owning a business forced to close or reduce hours
- Reduced pay or self-employment income
- A rescinded job offer or delayed start date for a job

The Three-Year Rules

A key provision in the Act allows the distribution(s) to be spread "ratably" over three years for purposes of calculating tax payments. In other words, the total can be reported in equal amounts on your 2020, 2021, and 2022 tax returns. For example, if you received a $15,000 distribution, you could report $5,000 in income for each of the three years. However, if you prefer, you can generally report the entire distribution in your 2020 tax filing.

Another provision allows you to repay all or a part of your coronavirus distribution to an eligible retirement plan within three years from the day after the date the distribution was received. Repayments will be treated as if you enacted a trustee-to-trustee transfer, and no federal income taxes will be owed. (A repayment to an IRA is not considered a rollover for purposes of the one-rollover-per-year rule.)

If you pay your income taxes prior to repaying the distribution, your repayment will reduce the amount of the distribution income you report in a subsequent year. Or instead, you may file an amended return, depending on your specific situation.

Consider speaking with a tax professional before making any final decisions.

How to Report Distribution Income

If you received a coronavirus distribution(s) in 2020, you should use Form 8915-E, Qualified Disaster Retirement Plan Distributions and Repayments, to report the income as part of your 2020 federal income tax filing. You can also use this form to report any recontributed amounts.