KENNEDY WEALTH
AND TAX MANAGEMENT INC.
Registered Investment Adviser

Independence - Integrity - Experience

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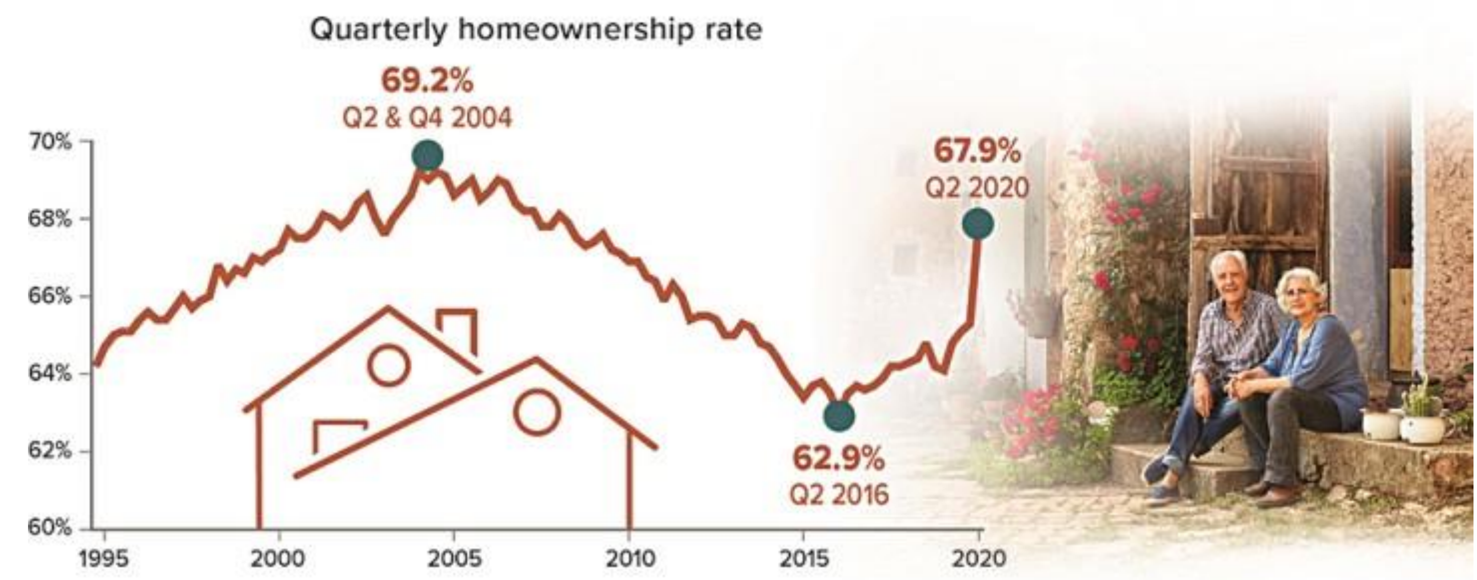
"Millions saw the apple fall, but Newton was the one who asked why."
-Bernard Baruch

Homeownership Rate Spikes During Quarantine

The U.S. homeownership rate jumped by 2.6% in the second quarter of 2020, the largest quarterly increase on record, bringing it to a level last seen in 2008. Part of this unexpected increase may be due to a change in the survey process because of the coronavirus, as well as a drop in the number of rental units as renters moved in with family or took on roommates. However, many renters bought homes, spurred by low mortgage rates.

Homeownership increased across all age groups, but the biggest jump was among those under age 35, whose 40.6% rate was the highest in almost 12 years. Americans age 65 and older have the highest rate of homeownership at 80.4%.



Sources: U.S. Census Bureau, 2020; Bloomberg, July 28, 2020; Market Watch, July 29, 2020

Seeking Sun or Savings? Explore a Retirement Move

Many people intend to retire in the place they call home, where they have established families and friendships. But for others, the end of a career brings the freedom to choose a new lifestyle in a different part of the country — or the opportunity to preserve more wealth and protect it from taxes.

This big life decision is not all about money or the weather. Quality-of-life issues matter, too, such as proximity to family members and/or a convenient airport, access to good health care, and abundant cultural and recreational activities. In fact, choosing a retirement destination typically involves a delicate negotiation of emotional and financial issues, especially for married couples who may not share all the same goals and priorities.

If you're nearing retirement, there's a good chance you have at least thought about living somewhere warmer, less expensive, or perhaps closer to children who have built lives elsewhere. Here are some important factors to consider.

Cost of Living

A high cost of living can become a bigger concern in retirement, when you may need to stretch a fixed income or depend solely on your savings for several decades. There's no question that your money will go further in some places than in others.

The cost of living varies among states and even within a state, and it's typically higher in large cities than in rural areas. Housing is typically the largest factor — and often varies the most from place to place — but cost of living also includes transportation, food, utilities, health care, and, of course, taxes.

Selling a home in a high-cost area might enable you to buy a nice home in a lower-cost area with cash to spare. The additional funds could boost your savings and provide additional income. Moving to a more expensive locale may require some sacrifices when it comes to your living situation, future travel plans, and other types of personal spending.

Tax Differences

Seven states have no personal income tax — Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming (Tennessee and New Hampshire tax only interest and dividend income) — and other states have different rules for taxing Social Security and pension income. Estate taxes are also more favorable in some states than in others. Property taxes and sales taxes also vary by state and even by county, so make sure to include them when calculating and comparing the total tax bite for prospective destinations.

The Tax Cuts and Jobs Act limited the annual deduction for state and local taxes to $10,000. This change resulted in federal tax increases for some wealthier households in high-tax states, and it may also factor into your relocation decision.

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Tips for Snowbirds

If you can afford the best of both worlds, you might prefer to keep your current home and head south for the winter. But if your choice of location is based largely on lower taxes, consider how much the costs of owning, maintaining, and traveling between two homes might cut into (or exceed) the potential tax savings.

To establish residency in the new state, you must generally live there for more than half of the year and possibly meet other conditions. You should also be aware that the tax agency in your old state may challenge your residency claim, especially if you still own property, earn income, or maintain other strong ties. If so, you may need to document your time and activities in each state and/or prove that your new home is your primary and permanent residence.

If you decide to live somewhere new on a full- or part-time basis, it may be worthwhile to rent for the first year, just in case the adjustment turns out to be more difficult than expected. You might also discuss the financial implications of a move with a tax professional.

Watch Out for These Financial Pitfalls in the New Year

As people move through different stages of life, there are new financial opportunities and potential pitfalls around every corner. Here are common money mistakes to watch out for at every age.

Your 20s & 30s

Being financially illiterate. By learning as much as you can about saving, budgeting, and investing now, you could benefit from it for the rest of your life.

Not saving regularly. Save a portion of every paycheck and then spend what's left over — not the other way around. You can earmark savings for short-, medium-, and long-term goals. A variety of mobile apps can help you track your savings progress.

Living beyond your means. This is the corollary of not saving. If you can't manage to stash away some savings each month and pay for most of your expenses out-of-pocket, then you need to rein in your lifestyle. Start by cutting your discretionary expenses, and then look at ways to reduce your fixed costs.

Spending too much on housing. Think twice about buying a house or condo that will stretch your budget to the max, even if a lender says you can afford it. Consider building in space for a possible dip in household income that could result from a job change or a leave from the workforce to care for children.

Overlooking the cost of subscriptions and memberships. Keep on top of services you are paying for (e.g., online streaming, cable, the gym, your smartphone bill, food delivery) and assess whether they still make sense on an annual basis.

Not saving for retirement. Perhaps saving for retirement wasn't on your radar in your 20s, but you shouldn't put it off in your 30s. Start now and you still have 30 years or more to save. Wait much longer and it can be hard to catch up. Start with whatever amount you can afford and add to it as you're able.

Not protecting yourself with insurance. Consider what would happen if you were unable to work and earn a paycheck. Life insurance and disability income insurance can help protect you and your family.

Your 40s

Not keeping your job skills fresh. Your job is your lifeline to income, employee benefits, and financial security. Look for opportunities to keep your skills up-to-date and stay abreast of new workplace developments and job search technologies.

Spending to keep up with others. Avoid spending money you don't have trying to keep up with your friends, family, neighbors, or colleagues. The only financial life you need to think about is your own.

Funding college over retirement. Don't prioritize saving for college over saving for retirement. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Closer to college time, have a frank discussion with your child about college options and look for creative ways to help reduce college costs.

Using your home equity like a bank. The goal is to pay off your mortgage by the time you retire or close to it — a milestone that will be much harder to achieve if you keep moving the goal posts.

Ignoring your health. By taking steps now to improve your fitness level, diet, and overall health, not only will you feel better today but you may reduce your health-care costs in the future.

The Weight of Too Much Debt

Approximately 70% of workers with non-mortgage debt say their debt has impacted their ability to save for emergencies and retirement, with 40% saying their debt is a "minor" problem and 21% saying it is a "major" problem.

Source: Employee Benefit Research Institute, 2020

Your 50s & 60s

Co-signing loans for adult children. Co-signing means you're 100% on the hook if your child can't pay — a less-than-ideal situation as you approach retirement.

Raiding your retirement funds before retirement. It goes without saying that dipping into your retirement funds will reduce your nest egg, a significant tradeoff for purchases that aren't true emergencies.

Not knowing your sources of retirement income. As you near retirement, you should know how much money you (and your partner, if applicable) can expect from three sources: your personal retirement accounts (e.g., 401(k) plans and IRAs); pension income from an employer; and Social Security at age 62, full retirement age, and age 70.

Not having a will or advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

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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