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Resolute Connections

The pandemic has cast a spotlight on healthcare for all of us, and that, in turn, has brought renewed attention to what may be the most overlooked part of a anybody's estate plan, the advance directive. *Advance Directives in the Pandemic* delves into what an advance directive is and why we all should have one.

When the Index is Not the Market concerns stock market indicators, such as the Nasdaq Composite, that are driven by only a few giant tech stocks creating an illusion of a healthy stock market in an otherwise severe recession.

Record-Low Mortgage Rates discusses one of the few silver linings during the pandemic – low mortgage rates that have not been witnessed in most of our lifetimes. *Assessing the "other" Filing Status* suggest alternate tax filing status options that may be preferable for some married couples.

Please be safe and we wish you continued health. If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Advance Directives in the Pandemic

The coronavirus pandemic has directed a spotlight on healthcare for the elderly, who are the most prone to dying from the disease. And that, in turn, has brought renewed attention to what may be the most overlooked part of a person's (elderly or not) estate plan: the advance directives.

An advance directive is made up of the living will and the health care proxy or power of attorney—legal documents that lay out your (or your parents') wishes when you (or your parents) cannot tell the doctors whether to prolong your life or proceed with that expensive and invasive medical intervention. A living will dictates to medical providers what kinds of medical care you want at the end of your life, should you be unable to communicate these things yourself. Health care proxies or powers of attorney allow you to designate someone to make your chosen medical decisions for you if you're unable to communicate. Most people should have both, since not all medical situations will trigger a living will.

If you know someone who doesn't have these important documents at this time of heightened health risk, there are some easy resources. The websites sponsored by AARP and a company called Everplans offer links to free forms that conform to the laws in each state. Five Wishes offers an interactive version of these documents for a modest $5 fee. Prepare for Your Care, a site founded by a geriatrician and college professor, helps you focus on the quality of life you want, what would make you want to go on living—or not. This is preferable to trying to list medical procedures that you may not fully understand.

With the health care proxy, it's important to select the right person to make your health decisions—someone who you know will follow your wishes, rather than simply tell the doctors to do whatever they can to preserve a life whose quality was already lost. And make sure you have designated a backup in case that person isn't available. In addition, people who are creating these documents might want to explain their thinking, so that loved ones will understand the point and purpose of the directive.

Of course, the documents will have to be available when needed. People can store the originals in a secure place in the home (perhaps where the will is located), and they should make sure the family knows where to find them. The documents should also be on file with the doctor and perhaps the attorney as well. And the best practice is to carry a card that has the health care agent's name and contact information, and which also tells where you stored the originals and copies.

When the Index is Not the Market

One of the most perplexing aspects of our investment world is how the market summaries you generally see in the newspapers and websites can badly mislead us about the health of the stock market. Today is an extreme case in point. Chances are, you've seen headlines telling us that the Nasdaq Composite index is up about 17% for the year, testing new highs every other day or so. The S&P 500 index is down just about 1% so far this year, but is not far from its late February high. The markets are moving ahead smoothly or even robustly, right?

As it turns out, most of the gains are concentrated in a very narrow band of companies in the tech sector, particularly the larger tech companies like Amazon (up 63% so far this year), Apple (up 32% this year), Facebook (+17%), Netflix (+60%) and Alphabet (formerly Google; +13%). Those companies are so large that an index like Nasdaq or the S&P 500 is highly influenced by their performance. These five stocks alone now make up about 15% of the market capitalization of the S&P 500 index. If you just look at the performance of the index, you might not realize how much of an impact mass unemployment and historic economic slowdown is having everywhere else in our pandemic-infested economy.

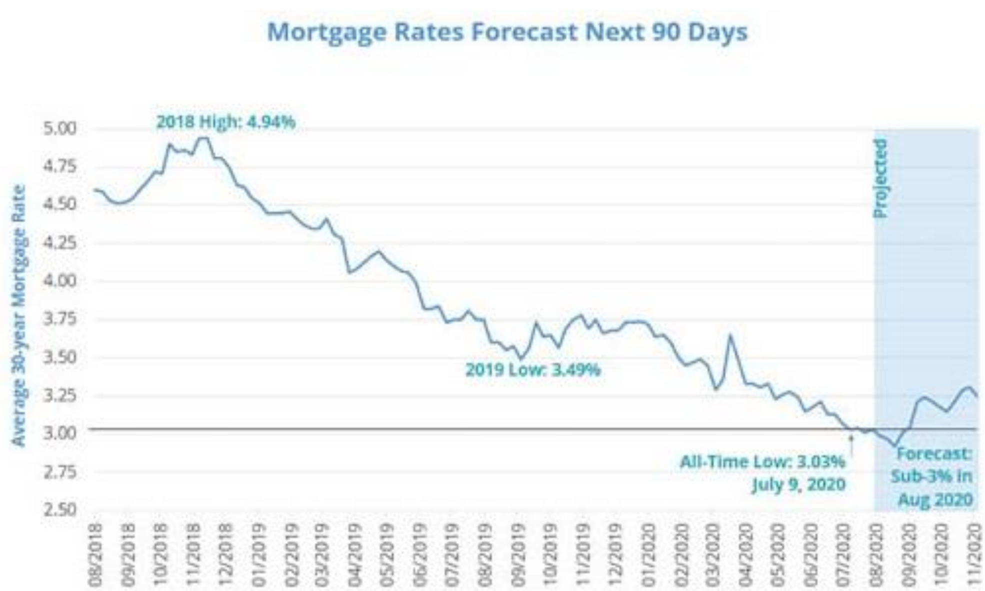
Other sectors of the marketplace, which are typically not reported in the press, paint a more realistic picture of what's actually going on in our corporate landscape. Consider small cap stocks, as measured by the Wilshire U.S. Small Cap Index. These stocks typically outperform large caps over time, but they've lost roughly 14.5% of their value so far this year. Real estate, as measured by the Wilshire U.S. REIT Index, has lost 18.61% of its value year to date. Look abroad, and the EAFE index of large cap companies based outside the U.S. have lost just over 10% of their value so far this year. Clearly, our markets are not quite as healthy as the most popular indices would have you believe.

The point here is not to focus your attention on gloom and doom, but to suggest that what you hear about as "the market" may not be giving you the whole picture. Rarely have we seen such a disparity between the performance of the popular indices and the thousands of stocks that fly under the radar. We see the robust health of a few companies reflected in the most widely-reported numbers, but that doesn't mean our economy, at the moment, is robustly healthy overall.

Record-Low Mortgage Rates

When people look back on the tumultuous 2020 economic landscape, they might pause a moment to check out home mortgage rates. Over the last three months, these rates have managed to achieve five (!) all-time lows. Currently, Freddie Mac, which buys mortgages from banks, reports an average 3.03% rate on 30-year fixed-rate mortgages, and there is a chance that we could see rates below 3% between now and the end of August.

You can see the remarkable downward trend in mortgages from late 2018 through the end of June, and then the light-blue-shaded part of the chart shows projected rates going forward. Compare these rates to 18% fixed-rates back in the early 1980s, or 5% as recently as 18 months ago. You can take the projections with a grain of salt (nobody knows what will happen next week or next month, much less out to the end of the year), but it's pretty clear that today's 3% rate is pretty extraordinary.



Does that mean that most people should be refinancing their home loans? That depends on a number of factors, including their current mortgage rate and how long they expect to own their house. But it may be worth exploring, sooner rather than later.

Assessing the "Other" Filing Status

You see tax tables showing single, head of household, married filing jointly, and then "married filing separately" rates. Is it possible that you and your spouse should file under this last option?

The Internal Revenue Service generally encourages married couples to file jointly rather than separately, and does so in a particularly direct way: it reduces or eliminates a number of tax benefits if each of you fills out a return on your own individual situation. Among other things, any student loan interest deduction is eliminated for separate filers, along with the college tuition expenses deduction, earned income credit, tax-free exclusion of Treasury bond interest (potentially a biggie), and the tax-free exclusion of some of your Social Security benefits. The deduction of net capital losses for both filers is reduced from $3,000 to $1,500.

Suppose you still want to consider filing separately. In that case, each spouse will be responsible for their own taxes, and won't be held accountable for the other spouse's errors in filling out the return. Neither spouse filing separately will be responsible for the other's tax liability. There would need to be a certain degree of coordination, however. Both spouses would have to decide whether to take the standard deduction or itemize; that is, if one decides to take the standard deduction or itemize, the other has to do the same.

If a couple has significant itemized deductions that are limited by their joint adjusted gross income (AGI), then married filing separately may make sense. Suppose, for example, that the lower-earning spouse has paid a lot of medical expenses, above 7.5% of his or her AGI on the 2019 return; above 10% on a 2020 return. Anything over that threshold amount can be deducted on Schedule A.

Also, not a tax consideration, but suppose an individual is enrolled in an income-based student loan repayment plan. Married filing separately would result in a lower

AGI and, therefore, a lower monthly payment than if the plan were based on the income of both spouses.

The most likely reason to consider filing separate tax returns is if a couple is divorcing, and wants to start the process of de-mingling their finances. However, if the couple is no longer living together, and has dependents, both parties should be able to file as Head of Household instead.

Most people will find the married filing separately option to be too complicated, not worth the hassle, and would probably come out paying higher taxes. Besides, who wants to fill out two tax returns instead of one?

Source:
Bob Veres Inside Edition Newsletter

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.