



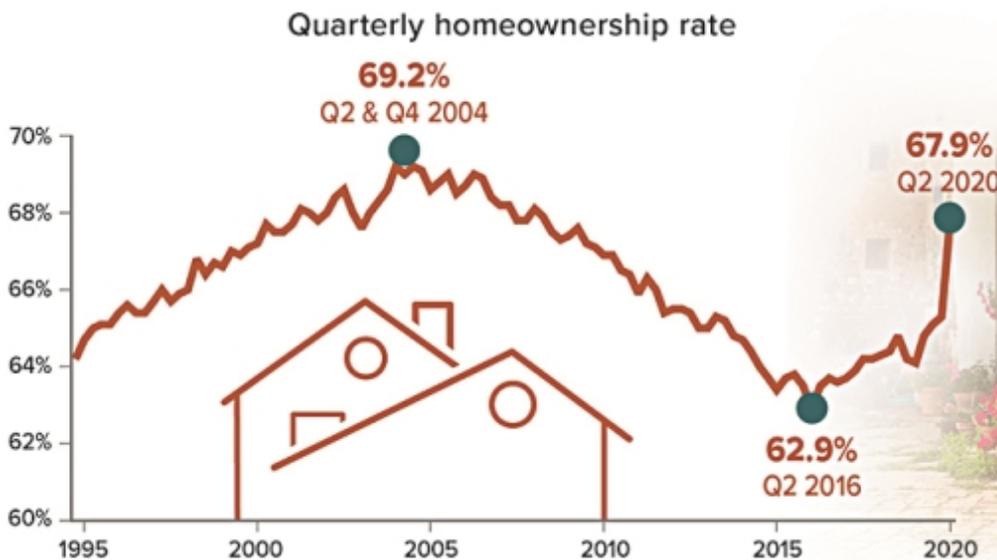
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Homeownership Rate Spikes During Quarantine

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; MarketWatch, July 29, 2020

Is Now a Good Time to Consider a Roth Conversion?

This year has been challenging on many fronts, but one financial opportunity may have emerged from the economic turbulence. If you've been thinking about converting your traditional IRA to a Roth, now might be an appropriate time to do so.

Conversion Basics

Roth IRAs offer tax-free income in retirement. Contributions to a Roth IRA are not tax-deductible, but qualified withdrawals, including any earnings, are free of federal income tax. Such withdrawals may also be free of any state income tax that would apply to retirement plan distributions.

Generally, a Roth distribution is considered "qualified" if it meets a five-year holding requirement and you are age 59½ or older, become permanently disabled, or die (other exceptions may apply).

Regardless of your filing status or how much you earn, you can convert assets in a traditional IRA to a Roth IRA. Though annual IRA contribution limits are relatively low (\$6,000 to all IRAs combined in 2020, or \$7,000 if you are age 50 or older), there is no limit to the amount you can convert or the number of conversions you can make during a calendar year. An inherited traditional IRA cannot be converted to a Roth, but a spouse beneficiary who treats an inherited IRA as his or her own can convert the assets.

Converted assets are subject to federal income tax in the year of conversion and may also be subject to state taxes. This could result in a substantial tax bill, depending on the value of your account, and could move you into a higher tax bracket. However, if all conditions are met, the Roth account will incur no further income tax liability and you won't be subject to required minimum distributions. (Designated beneficiaries are required to take withdrawals based on certain rules and time frames, depending on their age and relationship to the original account holder, but such withdrawals would be free of federal tax.)

Why Now?

Comparatively low income tax rates combined with the impact of the economic downturn might make this an appropriate time to consider a Roth conversion.

The lower income tax rates passed in 2017 are scheduled to expire at year-end 2025; however, some industry observers have noted that taxes may rise even sooner due to rising deficits exacerbated by the pandemic relief measures.

Moreover, if the value of your IRA remains below its pre-pandemic value, the tax obligation on your conversion will be lower than if you had converted prior to the downturn. If your income is lower in 2020 due to the economic challenges, your tax rate could be lower as well.

Any or all of these factors may make it worth considering a Roth conversion, provided you have the funds available to cover the tax obligation.

As long as your traditional and Roth IRAs are with the same provider, you can typically transfer shares from one account to the other. When share prices are lower, as they may be in the current market environment, you could theoretically convert more shares for each dollar and would have more shares in your Roth account to pursue tax-free growth. Of course, there is also a risk that the converted assets will go down in value.

Using Conversions to Make "Annual Contributions"

Finally, if you are not eligible to contribute to a Roth IRA because your modified adjusted gross income (MAGI) is too high (see table), a Roth conversion may offer a workaround. You can make nondeductible contributions to a traditional IRA and then convert traditional IRA assets to a Roth. This is often called a "back-door" Roth IRA.

As this history-making year approaches its end, this is a good time to think about last-minute moves that might benefit your financial and tax situation. A Roth conversion could be an appropriate strategy.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

If your federal tax filing status is:	Your 2020 Roth contribution is reduced if your MAGI is:	You can't contribute to a Roth IRA for 2020 if your MAGI is:
Single or head of household	More than \$124,000 but less than \$139,000	\$139,000 or more
Married filing jointly or qualifying widow(er)	More than \$196,000 but less than \$206,000	\$206,000 or more
Married filing separately	More than \$0 but less than \$10,000	\$10,000 or more

Note that your contributions generally cannot exceed earned income for the year. (Special rules apply to spousal IRAs.)

Is It Time to Think About Tax-Free Income?

Federal and state governments have spent extraordinary sums in response to the economic toll inflicted by the COVID-19 pandemic. At some point it is likely that governments will look for ways to increase revenue to compensate for this spending and increase income taxes as a result. That's why it might be a good time to think about ways to help reduce your taxable income. Here are three potential sources of tax-free income to consider.

Roth IRA

Contributions to a Roth IRA are made with after-tax dollars — you don't receive a tax deduction for money you put into a Roth IRA. Not only does the Roth IRA offer tax-deferred growth, but qualified Roth distributions including earnings are not subject to income taxation. And the tax-free treatment of distributions applies to beneficiaries who may inherit your Roth IRA.

Municipal Bonds

Municipal, or tax-exempt, bonds are issued by state and local governments to supplement tax revenues and to finance projects. Interest from municipal bonds is usually exempt from federal income tax. Also, municipal bond interest from a given state generally isn't taxed by governmental bodies within that state, though state and local governments typically do tax interest on bonds issued by other states.

Health Savings Accounts

A health savings account (HSA) lets you set aside tax-deductible or pre-tax dollars to cover health-care and medical costs that your insurance doesn't pay. HSA funds accumulate tax-deferred, and qualified withdrawals are tax-free. While an HSA is intended to pay for current medical and related expenses, you don't necessarily have to seek reimbursement now. You can hold your HSA until retirement then reimburse yourself for all the medical expenses you paid over the years with tax-free HSA distributions — money you can use any way you'd like. Be sure to keep receipts for medical expenses you incurred.

The Congressional Budget Office estimates that the federal budget deficit will be roughly \$3.7 trillion in fiscal year 2020 and \$2.1 trillion the following fiscal year. By comparison, the federal budget deficit for fiscal year 2019 was \$984.4 billion.

Sources: Congressional Budget Office, April 28, 2020; U.S. Department of the Treasury, May 2020

Municipal bonds are subject to the uncertainties associated with any fixed income security, including interest rate risk, credit risk, and reinvestment risk. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. Some municipal bond interest could be subject to the federal and state alternative minimum tax. Tax-exempt interest is included in determining if a portion of any Social Security benefit you receive is taxable. Because municipal bonds tend to have lower yields than other bonds, the tax benefits tend to accrue to individuals with the highest tax burdens.

HSA funds can be withdrawn free of federal income tax and penalties provided the money is spent on qualified health-care expenses. Depending upon the state, HSA contributions and earnings may or may not be subject to state taxes. You cannot establish or contribute to an HSA unless you are enrolled in a high deductible health plan (HDHP).

To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet the five-year holding requirement and the distribution must take place after age 59½ or due to the owner's death, disability, or a first-time home purchase (up to a \$10,000 lifetime maximum).

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Lessons from the Lockdown: A Back-to-Basics Holiday

If there is one thing the COVID-19 stay-at-home orders demonstrated, it was the need to find joy in simple pleasures. In fact, 43% of respondents to one survey said they had "changed their ways for the better" as a result of the lockdown.¹ By applying some of the lessons learned from pandemic purgatory to the holiday season, families may be able to create new and meaningful traditions while saving money.

Travel. While confined to their homes for several months, people discovered the benefits of virtual get-togethers via video calls. The same survey cited above found that many people who used videoconferencing technology reported that they connected more with loved ones during the lockdown than before restrictions were put into place.² This holiday season, if you can't be with your loved ones, consider scheduling a virtual gathering to open gifts or share a meal together. An added benefit of less time and money spent on travel could be lower stress overall.

Experience vs. "stuff." Of course, sharing experiences in person can be more rewarding than a video chat. Stay-at-home orders prompted many people to reflect on how much they took for granted, especially the opportunity simply to spend time with loved ones they don't see on a regular basis. As many grandparents would likely contend, time spent with family can be a much more valuable gift than the latest gadget or fashion trend. Moreover, while in lockdown,

many families discovered they could actually live without many of the material goods they purchase on a regular basis. Rather than spending a lot on "stuff" this season, consider intentionally downsizing the piles of gifts exchanged and focusing more on the shared celebrations and traditions.

In April 2020, during the height of the stay-at-home orders, the nation's personal savings rate hit an all-time high of 32%.³

Food. During the lockdown, many people rediscovered the simple joy of preparing and eating home-cooked meals and baked goods. And because ingredients were often limited due to supply-chain disruptions, creativity became a valuable kitchen skill. This holiday season, instead of spending a small fortune dining out, why not put some of that pandemic culinary prowess to work? Simple meals that the whole family helps prepare can be cost-effective as well as memory-making. Wrapped up with a beautiful bow, your creations can also make thoughtful, inexpensive, edible gifts. (You might also consider supporting local businesses by having food gifts delivered or purchasing gift cards.)

1-2) OnePoll, studyfinds.org, May 23, 2020; 3) U.S. Bureau of Economic Analysis, June 30, 2020

This is a resource that will answer your most important financial question, namely:

- If employed – When can I retire?
- If not employed – Can I stay retired?

Contour Financial will answer this question, suggest alternative scenarios, if needed, and implement investment strategies in order to reach your objectives.

Customized strategies are developed and implemented. Personalized service is provided by Certified Financial Planners (CFP) and/or Certified Public Accountants (CPA) to clients. Investment, retirement, tax planning & preparation, estate, insurance, cash flow and education planning are all integral parts to the process.

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