FINANCIAL PLANNING ASSOCIATION

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Can buying a vacation rental be a good investment?

BY: Gary Vawter, CFP®, MS, ChFC, AEP
Vawter Financial, Ltd.

If a person is looking at a second home or vacation property as an investment, it's best not to measure your rate of return only in dollars.

So you had a great summer, perhaps you stayed at your favorite resort on the beach/lake/golf course or elsewhere. You leave after a fantastic time and wonder "should we buy a place here, use it occasionally and rent it out the rest of the time?" The short answer is, it might be a great investment…if you don't care about your rate of return ($) but that isn't everything.

Second homes rarely become good investments from a financial standpoint since usually the days or weeks that would yield you, the owner, the most rent are when you'd want to be using it yourself. If you want the flexibility to use this whenever you want AND you want to make some money, that flexibility goes two ways. If you own it and rent it occasionally, you obviously can't use it when it's being rented. And if you want to find a rental but the owner is using it, that's the same problem – it's not available.

With the availability of Air BnB (or similar) in about every desired location, price and size, you can usually find something that fits your needs. A key advantage of owning something is you do have more control since it is your second home. Often this means your furnishings, some clothes, perhaps toys (think golf clubs) are there waiting for you when you arrive. That's not the case with a rental, more like pot luck based on the owner's preferences.

What if you've found your ideal destination but you want to visit other places as well? The trouble here is you'll probably feel obligated to go to your "free" accommodations versus spending more money to go elsewhere.

Is there a hassle factor difference? Renting and owning have their own unique challenges. If you're renting, you may not get everything you thought you were and in the condition you expected. The good news is when your rental period ends, you drop off the key and your commitment ends. Owning is better for knowing what to expect but your commitment to the "investment" is 24/7/365. And when the nice quiet renter turns your place into a mosh pit, ouch!

What about a timeshare or fraction investment? The latter is where you buy an interest in an investment/vacation property but is usually limited to a smaller number of owners. Both can best be thought of things that strongly encourage you to take a vacation. We know many people that have been served very well by these programs. They've spent more time with family and friends than they would if they had to do more planning or risk their "free" stays.

If a person is looking at a second home or vacation property as an investment, it's best not to measure your rate of return only in dollars. There is also some value for the experience of using and owning it. Whatever you decide, keep creating new memories as an owner, renter or both!

FINANCIAL FOCUS: can you improve your relationship with money?

BY: Erica Gardner, CFP®
Edward Jones Investments

Your financial strategy should incorporate a variety of factors, including your age, risk tolerance, income level, family situation and more.

In your life, you will have all sorts of relationships – with your family, your friends, your co-workers, and even with civic groups and charitable organizations you support. But have you ever considered another key relationship – the one you have with money?

Of course, this type of relationship has several aspects, such as saving, spending and investing. And your fellow Americans clearly face some challenges in these areas. For example, in a recent survey by financial services firm Edward Jones, only 21% of respondents reported that they feel happy when thinking about saving money, while 92% said they see room for improvement in their financial health. Yet only one in four plan to improve their spending habits. Furthermore, just 26% said retirement was a top savings priority.

If you share some of these concerns, what should you do? Here are a few suggestions:

• Identify your money-related emotions. Try to recognize the emotions you feel in connection with saving and investing. Do you get nervous about spending? Does putting away money for the future give you satisfaction or not? Do you worry that you don't know how much you should be investing, or whether you're investing in the right way? Clearly, these types of questions can cause some anxiety – and, even more importantly, they may lead you to make poor decisions. Emotions are obviously closely tied to money – but they really should not play a big role in your spending, saving and investing choices.

• Develop a financial strategy. By developing a sound financial strategy, you can reduce money-related stress and help yourself feel empowered as you look to the future. A comprehensive strategy can help you identify your goals – a down payment on a new home, college for your children, a comfortable retirement, and so on – and identify a path toward reaching them. Your financial strategy should incorporate a variety of factors, including your age, risk tolerance, income level, family situation and more. Here's the key point: By creating a long-term strategy and sticking to it, you'll be far less likely to overreact to events such as market downturns and less inclined to give in to impulses such as "spur of the moment" costly purchases. And without such a strategy, you will almost certainly have less chance of achieving your important goals.

• Get an "accountability partner." Your relationship with money doesn't have to be monogamous – you can get help from an "accountability partner." Too many people keep their financial concerns and plans to themselves, not even sharing them with their partners or other family members. But by being open about your finances to your loved ones, you can not only avoid misplaced expectations but also enlist the help of someone who may be able to help keep you on track toward your short- and long-term goals. But you may also benefit from the help of a financial professional – someone with the perspective, experience and skills necessary to help you make the right moves.

Like all successful relationships, the one you have with money requires work. But you'll find it's worth the effort.

It's time to sweat the small stuff

Andrew Keeler, CFP®
Keeler & Nadler Family Wealth

We all face obstacles, big and small, in our quest to accumulate wealth. Most of us overlook these small detractors, having to make decisions in the heat of the moment, based on emotion, or simply because we don't know what questions to ask. Here I will point out three factors that can diminish our efforts to accumulate wealth.

1. Investment Expenses: There are types of erosional (yes, that's actually a word) expenses that act as a drag on the return on your investment portfolio. One is called an expense ratio. Whether you invest in index mutual funds or ETF's or mutual funds actively managed by an investment manager, you pay an expense ratio. This fee varies from 2% or more per year to as little as .03%. Some will argue that you get what you pay for-if the "star" manager can actively select a superior list of securities then they may overcome this 2% fee.

The trouble is that most managers cannot consistently do this. The reality is that most of the brightest minds on Wall Street cannot consistently get lucky enough to outperform the index to which they are compared. Think of it this way. If you could put Carl Lewis and Jesse Owens on the same virtual track and pit them against one another twenty times, it would be a toss-up who the winner would be. But what if you put a 200-pound rucksack on Jesse's back, then who do you think wins?

2. Medical Surcharges: If you are 65 or older, you may be in for a surprise when it comes to your Medicare Part B and Part D premiums. While the Part B premiums can be as low as $144.60, they can be as high as $491.60/ month. That's a $317 difference, per month, per person. This means that a married couple may pay an extra $7,608 per year for Medicare Part B alone. Over 25 years, that amounts to a $190,200 loss of wealth. What choice do you have, right? You should work with your financial advisor to consider strategies to "fly under the thresholds". These premium surcharges are based on your income two years prior. This means that you have the opportunity to modify your income looking ahead.

3. Cash Back versus 0% interest on a new car purchase: The 0% financing, for as much as 84 months, is hard to say no to. But what about the "cash back" offer? Let's say that you are buying a car that costs $40,000 total. You are offered 0% for 84 months or $3,500 cash back. If you choose the 0% option, your payment is $476, you pay $40,000, and you own the car in seven years. If you decide to take the cash back offer, you finance $36,500, you pay $39,341 over five years, and you own the car.

Next time you are making a financial decision, take the time to sweat the small stuff. The little things can make a significant difference over time.

How does the elimination of the Stretch IRA affect planning for special needs families?

Barry Jamieson, CFP®
CMP Financial Planning

One of the biggest changes resulting from the recently passed Secure Act legislation was the elimination of the "Stretch IRA" provision which allowed beneficiaries to take IRA distributions over their life expectancy (as opposed to the life expectancy of the original owner) . Fortunately, individuals with disabilities are still able to stretch any inherited IRAs over the course of their lifetime; however, their siblings do not have this ability which poses a potential challenge for special needs families. This article discusses how the elimination of the stretch IRA will effect estate planning for special needs families.

The Secure Act and Stretch IRAs

The Secure Act has eliminated the stretch IRA for most new beneficiaries starting January 1, 2020, with some key exceptions including disabled beneficiaries. For all other non exempted beneficiaries of IRAs, the proceeds from an inherited IRA needs to be completely withdrawn by the 10th year following the year of inheritance (aka "the 10 year rule"). Importantly, the inherited IRA can be completely emptied anytime within that ten year time period. Fortunately, the vast majority of individuals with disabilities will continue to be able to stretch their inherited IRAs, provided they have sufficient documentation (e.g. doctor's note) showing that the person has a permanent disability that prevents gainful employment. In fact, individuals who share IRA proceeds from a trust with their siblings are slightly better off after the law change to the extent that the IRA for the individual is stretched now over their own life expectancy as opposed to the life expectancy of an older sibling.

How the Secure Act Affects Estate Planning for Special Needs Families

For families who do not have any typical children or who were intending to leave their inheritance exclusively for the benefit of the individual with disability, the new law has no effect on their estate planning. For those special needs families whose intention is to divide shares of the family estate through some mechanism, like a special needs trust, the law may prompt them to reconsider how those shares might be divided between siblings, since the "10 year rule" might have a significant effect on the future taxes of the beneficiaries. For example a family who has both Roth IRAs and regular IRAs to leave for their children, may want to redistribute more of the Roth IRAs to the typical children who maybe more likely to have greater future taxable income. Although tax planning should not be the primary concern in any estate plan, the change in the law should motivate families to reevaluate their estate plans to consider the tax implications of their trust or will on their loved ones.

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What's in a plan?

Many new clients are surprised by the breadth and depth of what comprehensive financial planning really entails. They usually start off looking for someone to help them with their investments, but investment management is just one of many areas a financial planner should be helping you with. The following is an overview of some of the most important topics that are covered with a comprehensive financial planner.

Tax Planning: No one wants to pay more taxes than they have to and with proper planning it's possible to reduce taxes paid over your lifetime. The goal is to reduce taxes during high-income years and defer to lower-income years, thus paying at a lower rate. You may already be using one of the most common vehicles used for this tactic: a 401(k).

Education Planning: With the cost of higher education soaring, it is important to define your goals and get a plan in place early. Saving systematically, in the right accounts, with the right investments, can be the difference between student loans and graduating debt free.

BY: Katrina Moore, CFP®
Vawter Financial Ltd.

Insurance Planning: Determining what types of insurance a family should have in place is an important topic for all comprehensive plans. Do you need life, disability, or long-term care insurance? The answer is typically related to your stage of life. Is your property and casualty policy appropriate and sufficient, or are you lacking coverage or paying for things you don't need? How much life insurance do you need if you have a family? These are all questions a financial planner should regularly explore with their clients.

Retirement Planning: When does continuing to work become optional? One of the most important aspects of when you can retire is how much money you need per month, and many people have difficulty answering that question. Your financial planner should not only help you determine how much you need to get there, but how to prepare for changes along the way.

Estate Planning: According to AARP, only 32% of the population has a Last Will. To avoid your estate ending up in probate, have an estate attorney draft appropriate estate documents. Once these documents are in place, a financial planner should help make sure beneficiary designations on accounts are updated. They may help you add "Transfer on Death" designations to local bank accounts, vehicles and homes. Continue to review your plan regularly, (about every 5 years or after major life events) to ensure your wishes and estate plan remain current.

Investment Management: Anyone can pick a stock, but a good financial planner helps you determine how much of your money should be in safe assets - like cash and bonds - and how much should be invested for long-term growth – stocks – based on your goals. Understanding which type of investments to hold in your retirement accounts versus an after-tax account can save you hundreds or even thousands of dollars a year.

Understanding which type of investments to hold in your retirement accounts versus an after-tax account can save you hundreds or even thousands of dollars a year.

Much of the above planning goes on behind the scenes. The majority of client meetings should be spent getting to know client's family, work, fears, and aspirations so planners can help them achieve their goals. A financial planner can't help you get to where you want to be if they don't know where you're going.

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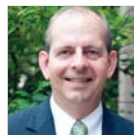

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The impact of the new SECURE Act

BY: Mark Beaver, CFP®
Keeler & Nadler Family Wealth

In the 11th hour of 2019, Congress passed a new law called the Setting Every Community Up for Retirement Enhancement ("SECURE") Act. Let's look at some of the changes that might have the greatest impact on individuals and families.

Required Minimum Distribution (RMD) starting age is now 72

70 ½ has long been the starting age for RMDs. Following that age, the IRS required you to take distributions from IRAs, 401(k)s and similar retirement accounts and hence, pay tax on it each year. The SECURE Act moves this starting age back a year and half to 72.

***Important note:** If you turned 70 ½ in 2019, you would still need to take RMDs this year. Although, due to the passing of the CARES Act, RMDs are not required for 2020.*

This move makes sense. It's never changed since RMDs have been in existence and yet people are living longer in retirement these days. With this extra amount of time, it could give you an opportunity to be in a more favorable tax position before you are required to take money out (through Roth conversions or charitable giving for example).

***Important note:** Qualified Charitable Distributions (QCD) are still allowed starting at age 70 ½ (not pushed back to 72).*

Inherited Retirement Accounts must be fully distributed within 10 years

Inheritors of retirement accounts also have RMDs, no matter what age they inherit the account(s). Until now, beneficiaries would typically choose to base their distributions off their age and life expectancy, meaning the younger you are, the smaller you're required to take. With the SECURE Act, beneficiaries will now have to distribute the entire account within 10 years.

This would mean a dramatic increase in taxable income in some cases. For example, under the old rule if you inherited an IRA at age 50, you would have to withdraw about 3% in the first year (about a third of the account over ten years). Now, you would need to withdraw three times that amount, producing much more taxable income that you may not want.

***Important note:** This new rule does not include anyone who inherited retirement accounts prior to 2020; you would be grandfathered under the previous law. Also, this only applies to non-spouse beneficiaries. A spouse can still inherit a retirement account and use their own life expectancy as in previous years.*

These are just a couple of the major changes that have come with the new SECURE Act. Others affect business owners that offer 401(k) plans for employees including certain tax incentives and opening the door for annuities within retirement plans.

So much has happened in 2020, including another Act (the CARES Act) that these new rules are not necessarily top of mind. However, they will have a big impact on many families and present opportunities and challenges for financial plans. It's a great time to talk with your advisor and see how these changes affect your unique situation.

Recent changes to retirement plans that you should know about

BY: Matthew Stewart, CFP®, ChFC®
Forestview Financial Partners, LLC

With the overwhelming amount of information that has been thrown at us this year related to the Coronavirus, you may have missed seeing the sweeping changes to retirement plans that have been enacted recently. Here's a summary of some of the most important provisions.

The SECURE Act, which was signed into law on December 20, 2019 and effective January 1, 2020 came with these changes:

It raised the age for Required Minimum Distributions (RMD) from most retirement plans and raised the age for contributions to IRAs.

1) Under prior law, once someone reaches the age of 70.5 they are forced to take annual minimum distributions from most types of retirement plans (with the exception of Roth IRAs). The new law raises that age to 72 for those that were born on July 1st, 1949 or later.

2) The ability to make contributions to an IRA ceased at the age of 70.5 under prior law. Now, that has been repealed. As long as you are working and have earned income you can continue to make contributions to your IRAs.

While the above were welcome changes to IRA owners, the SECURE Act, unfortunately, also came with a major disadvantage. It repealed the "stretch IRA", which was an estate planning strategy that allowed non-spouse beneficiaries of IRAs to take minimum annual distributions over their life expectancy. That effectively allowed them to spread out the tax liability over a long period of time, allowing the funds to grow in a tax-deferred environment along the way. With a few exceptions, the new law requires non-spouse beneficiaries to withdrawal all funds from inherited IRAs within 10 years.

The CARES Act was signed into law on March 27, 2020. Notable changes to retirement plans are as such:

If you already took your RMD before the law went into effect, you may be able to put the funds back. This is tricky, so you'll want to consult with your advisors.

Those Required Minimum Distributions we discussed above are suspended for 2020. This includes RMDs from all IRAs, 401(k) s and 403(b) plans. If you already took your RMD before the law went into effect, you may be able to put the funds back. This is tricky, so you'll want to consult with your advisors.

Under most circumstances, if you withdraw money from a retirement plan before the age of 59.5 there is generally a 10% tax penalty associated with those withdrawals. The CARES Act waves that penalty for withdrawals up to $100,000 in the year 2020 for people who are impacted by COVID-19 (due to layoff, reduced work hours, sickness). The IRS will allow you to pay the income tax owed on the distribution over a three-year period of time. Furthermore, those distributions can be re-contributed to an eligible retirement plan within three years.

The CARES Act also includes a provision that allows participants in company retirement plans (such as 401(K)s), who are impacted by COVID-19, to borrow 100% of their vested balance, up to a maximum of $100,000. Furthermore, upon request, repayments due on outstanding loans can be deferred for up to 12 months.

These are just a few of the new rules enacted. As always, you should do further research and consult with your advisors to see how they may affect you.

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Is Your Advisor Among America's "Elite?"

Hamilton Capital is the only Columbus-area member of the Financial Times 300[1]

Hamilton Capital, the largest fee-only registered investment adviser in Central Ohio[2], was recently recognized for the sixth time as a member of the Financial Times 300, an annual list honoring the country's "Top Registered Investment Advisers." Firms are evaluated and selected based on the following wide ranging criteria[3]:

1. **AUM** signals experience managing money and client trust.
2. **AUM growth rate** can be a proxy for investment performance as well as for asset retention and the ability to generate new business.
3. **Companies' years in existence** indicates reliability and experience managing assets through different market environments.
4. **Industry certifications** (Chartered Financial Analyst (CFA®), Certified Financial Planner (CFP®), etc.) shows that the company staff has industry expertise and signals a professional commitment to investment skills.
5. **Compliance record** provides evidence of any past client disputes – a string of complaints can signal potential problems.
6. **Online accessibility** demonstrates a desire to provide easy access and transparent contact information.

More than ever, you need a fiduciary advisor to help you create and keep wealth.

Talk with us!
HamiltonCapital.com

For more information, including important disclosures regarding recognitions or rankings, please visit
hamiltoncapital.com/important-disclosures/

1. Based upon FT's 2020 rankings 2. Source: Columbus Business First's annual ranking of Central Ohio's largest fee-only financial planners.
3. Source: Financial Times' annual FT300 list of America's "Elite" advisors. Criteria upon which firms are evaluated and selected are defined by the Financial Times.

Disclosure: *"FT" and "Financial Times" are trademarks of The Financial Times Ltd. ("FT").The Financial Times 300 Top Registered Investment Advisers is an independent listing ("The FT 300") produced annually by the Financial Times (July 2020). The FT is not affiliated with Hamilton Capital ("HC"). The FT 300 is presented as "an elite group," not a competitive ranking of one to 300. The results are not based upon information or opinions of participating Registered Investment Advisers' ("RIA's") clients. Therefore, inclusion on The FT 300 is not representative of any participating RIA's clients' experiences. Neither the participating RIAs nor their employees pay a fee to The Financial Times in exchange for inclusion in The FT 300. HC applied for consideration, and the result was independently granted. The FT 300 is based on data gathered from RIAs, regulatory disclosures, The FT's research, and/or research conducted on The FT's behalf by "Ignites Distribution Research," a Financial Times sister publication. The FT invited RIAs reporting $300 million or more in client assets under management to complete a lengthy application, which was analyzed along with data available from regulatory filings. The FT indicates that the methodology used to evaluate inclusion on The FT 300 is quantifiable and objective, and that the participating RIAs had no subjective input in the analysis. Approximately 706 RIAs applied and 300 made the final list. The formula utilized to evaluate participating RIAs for inclusion on the list is based on six factors listed above and calculates a numeric score for each participating RIA. Inclusion on the FT 300 is absolutely not indicative of HC's future performance, or any future performance pertaining to its clients' investments; should not be construed by a client or prospective client as a guarantee that they will experience a certain level of results if HC is engaged, or continues to be engaged, to provide investment advisory services; and should not be construed as a current or past endorsement of HC by any of its clients.*