AWM Financial Planning

A Few reasons to file your 2021 tax return early

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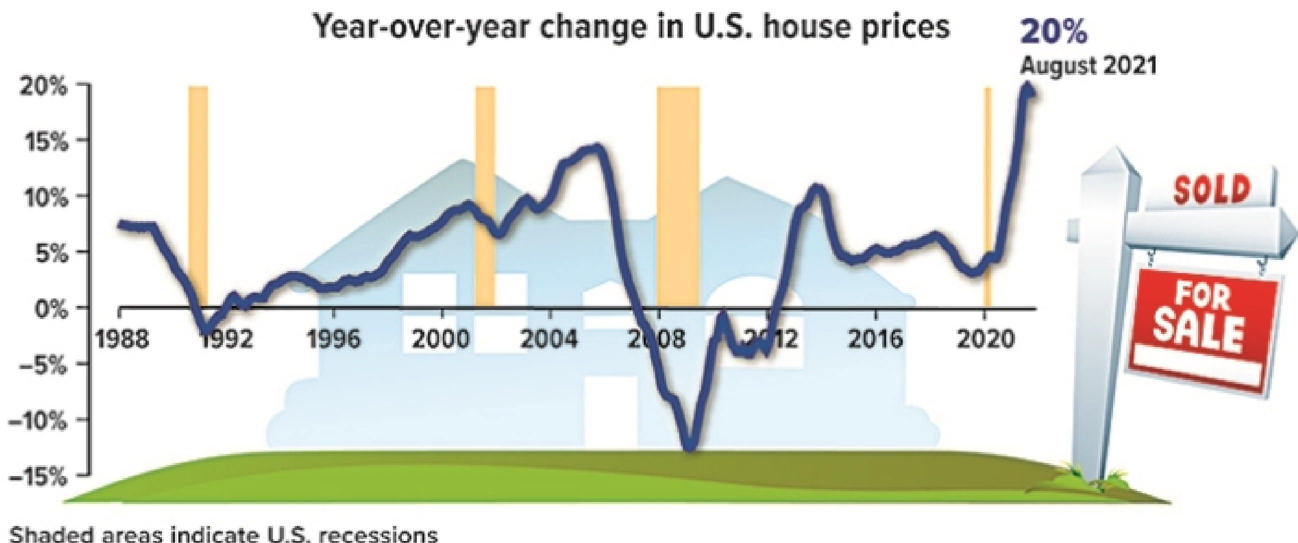
- **Child Tax Credit or COVID-19 Payments** – the IRS used 2019 and 2020 tax returns to determine eligibility. If those years did not correctly reflect your 2021 income situation, a 2021 return may allow you to receive the credit or payment.
- **Receive refunds sooner** – the IRS is not exempt from challenges presented by COVID and labor shortages. If you are due a refund, file early, electronically and use direct deposit.
- **Beat tax ID thieves** – a frequent tax identity scam occurs when a criminal files under your name and receives your tax refund. Filing early allows you to get your refund and avoids the hassle of cleaning up the mess of the fake tax filing.
- **Find a tax professional** – finding a good tax professional is easier when you do your searching earlier in the tax season before they get too busy.
- **Start focusing on 2022** – once 2021 is done, you can focus on 2022. Your 2021 return will be helpful in determining what steps you need to take for 2022 to improve your results.

Home Prices Have Risen at Record Pace

U.S. home prices rose 20% during the 12 months ending in August 2021 as buyer demand far exceeded the supply of dwellings for sale. This was the largest annual price increase in the history of the monthly S&P/Case-Shiller U.S. National Home Price Index going back to 1988. The index continued strong growth at a slightly slower pace in the fall, typically a time when the market takes a breather.

Home prices fell during most past recessions, but the housing market has been anything but normal since the pandemic began in 2020. In many cities, builders struggle to build enough homes to meet the demand driven by low interest rates, a desire for more space while working and schooling at home, and the aging of millennials into homeownership. This trend was amplified by labor shortages and spiking material costs in 2021.



Sources: S&P Dow Jones Indices, 2021 (data for the period January 1988 to October 2021); *The Wall Street Journal,* July 27, 2021; National Association of Realtors, November 17, 2021

When Two Goals Collide: Balancing College and Retirement Preparations

You've been doing the right thing financially for many years, saving for your child's education and your own retirement. Yet now, as both goals loom in the years ahead, you may wonder what else you can do to help your child (or children) receive a quality education without compromising your own retirement goals.

Knowledge Is Power

Start by reviewing the financial aid process and understanding how financial need is calculated. Colleges and the federal government use different formulas to determine need by looking at a family's income (the most important factor), assets, and other household information.

A few key points:

- Generally, the federal government assesses up to 47% of parent income (adjusted gross income plus untaxed income/benefits minus certain deductions) and 50% of a student's income over a certain amount. Parent assets are counted at 5.6%; student assets are counted at 20%.[1]
- Certain parent assets are excluded, including home equity and retirement assets.
- The Free Application for Federal Student Aid (FAFSA) relies on your income from two years prior (the "base year") and current assets for its analysis. For example, for the 2023-2024 school year, the FAFSA will consider your 2021 income tax record and your assets at the time of application.

Strategies to Consider

Financial aid takes two forms: need-based aid and merit-based aid. Although middle- and higher-income families typically have a tougher time receiving need-based aid, there are some ways to reposition your finances to potentially enhance eligibility:

- Time the receipt of discretionary income to avoid the base year.
- Have your child limit his or her income during the base year to the excludable amount.
- Use countable assets (such as cash savings) to increase investments in your college and retirement savings accounts and pay down consumer debt and your mortgage.
- Make a major purchase, such as a car or home improvement, to reduce liquid assets.

Many colleges use merit-aid packages to attract students, regardless of financial need. As your family explores colleges in the years ahead, be sure to investigate merit-aid opportunities as well. A net price calculator, available on every college website, can give you an estimate of how much financial aid (merit- and need-based) your child might receive at a particular college.

Don't Lose Sight of Retirement

What if you've done all you can and still face a sizable gap between how much college will cost and how much you have saved? To help your child graduate with as little debt as possible, you might consider borrowing or withdrawing funds from your retirement savings. Though tempting, this is not an ideal move. While your child can borrow to finance his or her education, you generally cannot take a loan to fund your retirement. If you make retirement savings and debt reduction (including a mortgage) a priority now, you may be better positioned to help your child repay any loans later.

Some Parents Use Retirement Funds to Pay for College

	Retirement Savings Withdrawal		Retirement Account Loan	
	2020	2021	2020	2021
Percentage of families using each source	14%	16%	7%	6%
Average amount	$3,143	$3,633	$2,806	$3,631

Source: Sallie Mae, 2021

Consider speaking with a financial professional about how these strategies may help you balance these two challenging and important goals. There is no assurance that working with a financial professional will improve investment results.

Withdrawals from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to a 10% penalty tax if taken prior to age 59½, unless an exception applies. (IRA withdrawals used for qualified higher-education purposes avoid the early-withdrawal penalty.)

1) College Savings Plan Network, 2021

Going Public: How Are Direct Listings Different from IPOs?

An initial public offering (IPO) is the first public sale of stock shares by a private company. IPOs are important to the financial markets because they help fuel the growth of innovative young companies and add new stocks to the pool of potential investment opportunities.

When a company files for an IPO, new shares are created, underwritten by a bank, and sold to the public. But that's not the only way for a company's stock to become publicly traded. When a company uses a direct listing, typically only existing shares are sold to the public on a stock exchange — no new shares are issued, and no underwriters are involved.

There were more U.S. IPOs in the first half of 2021 than there were in all of 2020, which was also a record year.[1] The number of direct listings has ticked up, too, but there were just three in 2020 and six in 2021.[2]

Going public is a fraught process that few companies dare to navigate on their own. Even so, several well-known companies have sparked media coverage and investor curiosity when they chose to bypass the traditional IPO process.

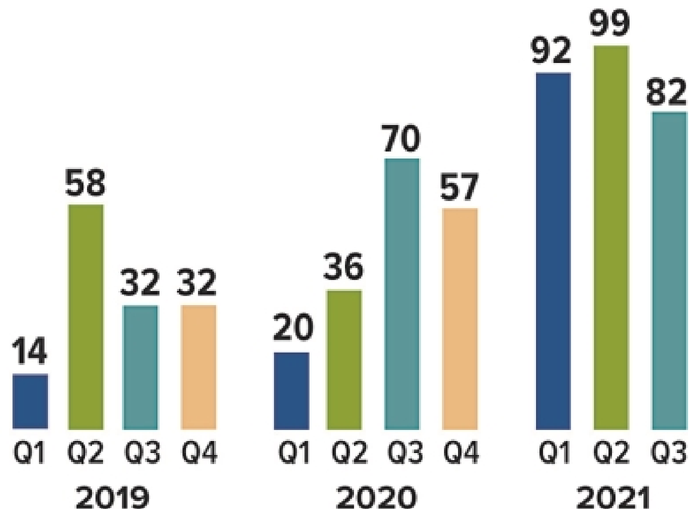
Two Roads, One Less Traveled

The path a company takes to the stock market generally depends on its business goals. Companies that pursue a traditional IPO often want to raise as much money as possible for expansion purposes. Direct listings, on the other hand, give company founders, employees, and early investors a way to cash out some of their equity without diluting the value of the company's stock.

The underwriters that facilitate the IPO process typically organize a "roadshow" to market the stock and gauge the interest of institutional investors. They also guide the company through regulatory requirements, help set the initial offer price, and may guarantee the sale of a specified number of shares at the offering price. IPOs usually have a three- to six-month lockup period, which is an agreement with underwriters that prevents employees and other early investors from immediately selling their shares. Keeping insider shares off the market can help quell market volatility in the early days of trading.

A company may be able to make its stock market debut faster and at a much lower cost with a direct listing, and there is no lockup period. But going public without underwriting support can also be risky. The supply of shares becoming available for sale is undefined, and the demand for those shares can be difficult to predict, which could result in insufficient liquidity.

Number of Traditional U.S. IPOs



Source: PwC, 2021

Investor Access

One catch associated with IPOs is that many investors who want to buy shares at the offering price don't have the opportunity to do so. Moreover, those who buy the stock on the first day of trading often miss out on much of the sought-after "pop," because a large part of the appreciation can take place between its pricing and the first stock trade. With a direct listing, everyone has access to the stock at the same time, but this also means share prices can be more volatile after trading begins.

In fact, some investors who rush to buy highly anticipated IPOs or directly listed stocks on the first day might pay inflated prices, because that's when media coverage, public interest, and demand may be greatest. Share prices could drop in the weeks following a large first-day gain as the excitement dies down and fundamental performance measures such as revenues and profits take center stage.

The return and principal value of all stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve a higher degree of risk.

1) Reuters, June 15, 2021

2) Warrington College of Business, University of Florida, 2022

Federal Student Loan Repayment Set to Resume in May

After five payment pauses that began roughly two years ago, federal student loan payments are set to resume in May 2022.

The first payment suspension came in March 2020 when Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act and lasted for six months through September 2020. The second and third pauses came via presidential executive order (one from Trump and one from Biden) and extended the payment pause through January 2021 and again through September 2021. The Department of Education set a fourth extension through January 31, 2022. Then in December 2021, President Biden announced a fifth pause through May 1, 2022, due to ongoing public health challenges.

Here are some things to know as payments get set to resume.

Payments made during moratorium. Borrowers who chose to continue making full or partial payments during the suspension period will have the full amount of their payments applied to principal, which will draw down their loans faster.

Payments not made during moratorium. Borrowers who didn't make payments during the suspension periods won't be worse off because interest did not accrue on their loans. Essentially, the interest rate was set at 0%.

Auto-debit payments. According to the Department of Education, borrowers who signed up for auto-debit before March 13, 2020 (the date the first payment pause began) will be contacted by their loan servicer before the payment pause ends to confirm whether they want to stay on auto-debit. If borrowers do not respond to these communications, their servicer will stop auto-debit. For borrowers who signed up for auto-debit after March 13, 2020, their auto-debit payments will resume automatically on the first due date when payments begin again. Borrowers who have questions about their auto-debit status or who need to update their banking information on file should contact their loan servicer.

Hardship options. Borrowers who still face financial hardship when the moratorium ends can request a loan deferment or forbearance, which generally pauses payments for six months. The federal government's *Loan Simulator* tool can help borrowers understand the impact of suspending payments and identify loan repayment plans that may help lower payments, such as an IDR (income-driven repayment) plan. The tool is available online at studentaid.gov/loan-simulator.

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