

# Financial Strategies

News You Can Use!!

**Hal Perkins**

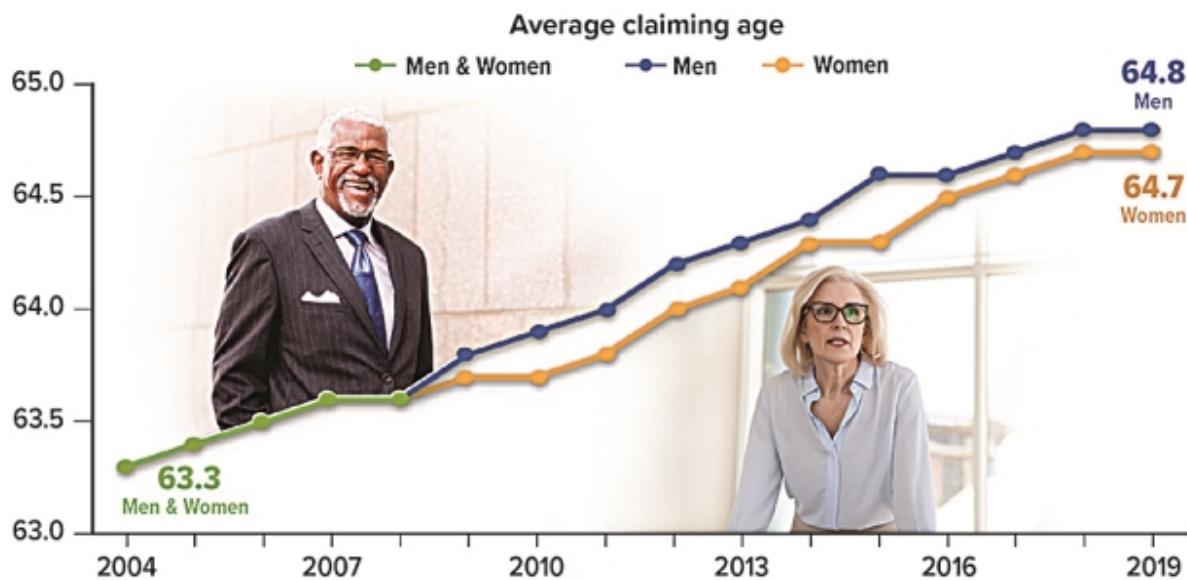
Managing Director - Investments  
Oppenheimer & Co. Inc.



711 Louisiana • Suite 1500 • Houston • TX • 77002  
Phone: 713-650-2119 • Fax: 713-650-2142  
[hal.perkins@opco.com](mailto:hal.perkins@opco.com) • <https://www.oppenheimer.com/perkinsgroup/>

## More People Delay Claiming Social Security

The average age for claiming Social Security retirement benefits has been steadily rising. Older Americans are working longer, in part because full retirement age is increasing incrementally from 66 to 67. A worker may begin receiving Social Security retirement benefits as early as age 62, but monthly benefits will be permanently reduced by as much as 30% if claimed before full retirement age — a strong incentive to wait.



Source: Social Security Administration, 2020

# Money Market Funds in a Low Rate Environment

After pushing interest rates gradually upward for three years, the Federal Reserve dropped the benchmark federal funds rate to near zero (0%–0.25%) in March 2020 to help mitigate the economic damage caused by COVID-19.<sup>1</sup> The funds rate affects many short-term interest rates, including the rates on money market mutual funds, which were already low to begin with.

The average monthly yield on 30-day taxable money market funds dropped steadily after the Fed's move and was down to 0.03% by the end of 2020, equivalent to an annual percentage rate of about 0.36%.<sup>2</sup> Considering the rock-bottom rates on some short-term investments, this is higher than might be expected but well below the rate of inflation.<sup>3</sup> Even so, investors held about \$4.3 trillion in money market funds.<sup>4</sup>

What's the appeal with such a low return? Stability and liquidity.

## Cash Alternatives

Money market funds are mutual funds that invest in cash alternatives, usually short-term debt. They seek to preserve a stable value of \$1 per share and can generally be liquidated fairly easily.

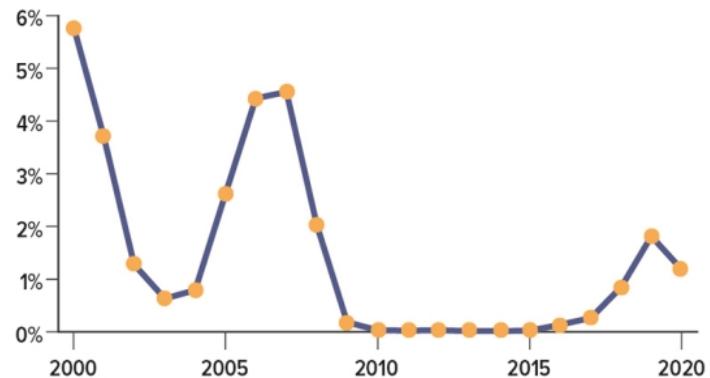
Money market funds are typically used as the "sweep account" for clearing brokerage transactions, and investors often keep cash proceeds in the fund on a temporary basis while looking for another investment. In a volatile market, it's not unusual to see large shifts into money market funds as investors pull out of riskier investments and wait for an opportunity to reinvest.

## Short Term vs. Long Term

Money market funds can also be useful to keep emergency funds or other funds that might be needed quickly, such as a down payment on a home. If you are retired or near retirement, it might make sense to use money market funds for near-term expenses and/or to hold funds in a traditional IRA for required minimum distributions, so you do not have to sell more volatile assets.

For a long-term investing strategy, however, money market funds are a questionable choice. You might keep some assets in these funds to balance riskier investments, but low yields over time can expose your assets to inflation risk — the potential loss of purchasing power — along with the lost opportunity to pursue growth through other investments. This could change if interest rates rise, but the Fed projects that the federal funds rate will remain in the 0% to 0.25% range through the end of 2023.<sup>5</sup>

## Annual Returns on Money Market Mutual Funds



Source: Refinitiv, 2021, 30-Day Money Market Index — All Taxable, for the period 12/31/1999 to 12/31/2020. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

*Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in such a fund.*

*Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1, 5) Federal Reserve, 2020

2) Refinitiv, 30-Day Money Market Index — All Taxable, for the period 12/31/2019 to 12/31/2020

3) U.S. Bureau of Labor Statistics, 2021

4) Investment Company Institute, 2021 (data as of 12/29/2020)

# A Financial Wellness Plan Can Help Pave the Road to Retirement

If we've learned any lesson over the past year, it's that no matter how carefully we plan and prepare, we'll likely encounter unexpected hurdles. While a global pandemic has certainly underscored the need to pay close attention to our physical wellness, it has also revealed the need to shore up our financial wellness.

According to PwC's 9th Annual Financial Wellness Survey conducted in January 2020, financial matters were the top cause of stress for employees even well before the pandemic hit in earnest. More than one-third of full-time employed millennials, Gen Xers, and baby boomers had less than \$1,000 in emergency savings. Only 29% of women said they would be able to cover their basic necessities if they found themselves out of work for an extended period, compared with 55% of men. And more than half of millennials and Gen Xers and 35% of baby boomers said they would likely use their retirement funds for something other than retirement, with most noting it would be for an unexpected expense or medical bills.<sup>1</sup>

Although tapping your retirement savings can help you get through a crisis, it can hinder your ability to afford a comfortable retirement. Having a plan to guard your financial wellness throughout your working years can help you avoid putting your retirement at risk.

## What Is Financial Wellness?

The Consumer Financial Protection Bureau (CFPB) defines financial well-being as:<sup>2</sup>

- 1) Having control over day-to-day and month-to-month finances. In order to achieve this, your expenses need to be lower than your income.
- 2) Maintaining the capacity to absorb a financial shock. This typically refers to having adequate emergency savings and insurance.

## The Four Elements of Financial Well-Being

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

Source: CFPB, September 2017

3) Being on track to meet financial goals, meaning you have either a formal or informal plan to meet your goals and you are actively pursuing them.

4) Having the financial freedom to make choices that allow you to enjoy life, such as a splurge vacation.

The CFPB has identified several key factors that contribute to an individual's ability to achieve financial well-being. Among them are: (1) having the skills needed to find, process, and use relevant financial information when it's needed; and (2) exhibiting day-to-day financial behaviors and saving habits.

## Assistance Is Available

Many employers have begun offering financial wellness benefits over the past decade. These programs have evolved from a focus on basic retirement readiness to those addressing broader financial challenges such as health-care costs, general finance and budgeting, and credit/debt management.<sup>3</sup>

If you have access to work-based financial wellness benefits, be sure to take time and explore all that is offered. The education and services can provide valuable information and help you build the skills to make sound decisions in challenging circumstances.

In addition, a financial professional can become a trusted coach throughout your life. A qualified financial professional can provide an objective third-party view during tough times, while helping you anticipate and manage challenges and risks and, most important, stay on course toward a comfortable retirement.

1) PwC, May 2020

2) Consumer Financial Protection Bureau, January 2015

3) Employee Benefit Research Institute, October 2020

# Is Your Home Office Also a Tax Shelter?

The pandemic ushered in the age of video meetings, providing a glimpse into many kinds of home workspaces. For many workers, a dedicated home office became more important than ever in 2020, though not everyone will get a tax break for having one.

## A Perk for Business Owners

Only self-employed workers, independent contractors, and partners in certain pass-through businesses may claim the home office deduction on their personal tax returns.

To qualify, a home office must be the taxpayer's principal place of business and be used regularly and exclusively for work — not to manage personal matters or pursue a hobby. It must be a separately identifiable space, but not necessarily an entire room.

Prior to 2018, employees receiving a W-2 form and corporate business owners who were required to work at home could claim the home office deduction as a miscellaneous itemized deduction. However, this deduction was eliminated by the Tax Cuts and Jobs Act for years 2018 through 2025.

Companies may reimburse employees for some home office expenses and take a deduction on corporate tax returns.

## One Way or Another

Taxpayers who operate a trade or business out of a qualifying home office can choose between two different calculation methods, one of which could result in a larger deduction.

Under the original method, eligible taxpayers can write off a percentage of home office expenses such as depreciation, rent, property taxes, insurance, utilities, maintenance, and repairs. The percentage is based on the square footage of the space used by the business relative to the total size of the home.

A newer, simplified option allows taxpayers to claim a flat \$5 per square foot of the office, up to 300 square feet. Thus, the deductible amount is capped at \$1,500. This simple formula doesn't take home office expenses into account, so it's easier to figure out and generally lightens the recordkeeping burden. However, business owners with relatively high home expenses may be able to claim more than \$1,500 for a home office if they use the more complex calculation method.

Sole proprietors and independent contractors take the home office deduction as a business expense on Schedule C, and partners use Schedule E. Either way, small-business owners may want their tax professional to help determine eligibility and evaluate the potential tax savings.

---

The content herein should not be construed as an offer to sell or the solicitation of an offer to buy any security. The information enclosed herewith has been obtained from outside sources and is not the product of Oppenheimer & Co. Inc. ("Oppenheimer") or its affiliates. Oppenheimer has not verified the information and does not guarantee its accuracy or completeness. Additional information is available upon request. Oppenheimer, nor any of its employees or affiliates, does not provide legal or tax advice. However, your Oppenheimer Financial Advisor will work with clients, their attorneys and their tax professionals to help ensure all of their needs are met and properly executed. Oppenheimer & Co. Inc. Transacts Business on all Principal Exchanges and is a member of SIPC.