Bartholomew & Company Monthly

Providing Trusted Financial Advice Since 1994

Thomas J. Bartholomew, AIF®
President, CEO
Bartholomew & Company, Inc.
370 Main Street, Suite 1000 • Worcester • MA • 01608
508-753-8807 • 800-440-8807
info@bartandco.com • www.bartandco.com

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Happy Spring!

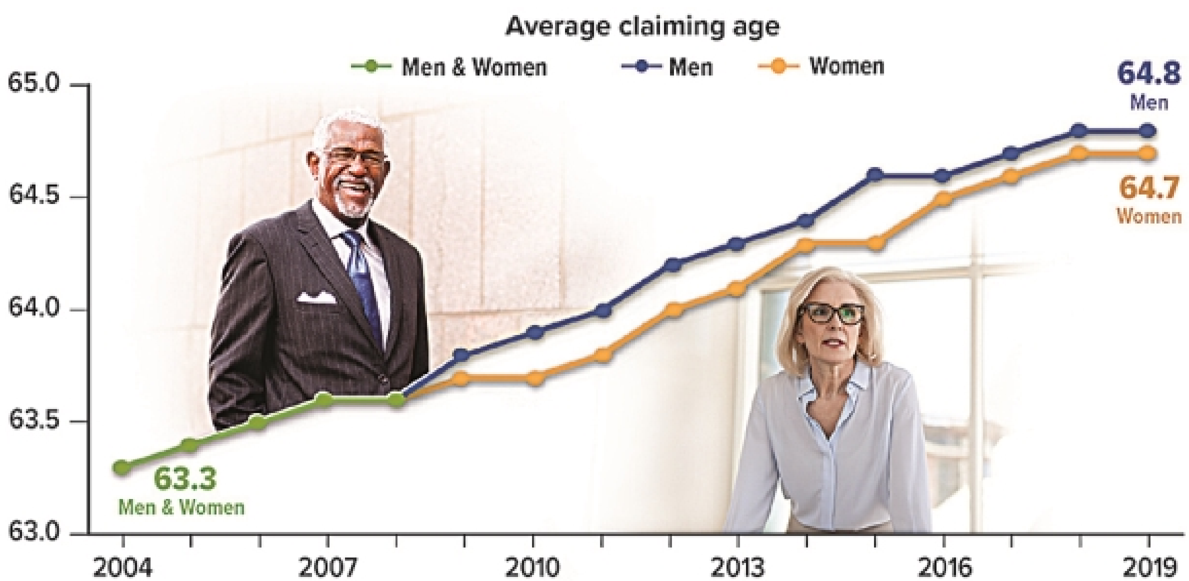
April is designated as **National Social Security Month** and is an opportunity to learn more about Social Security Programs and services.

Bartholomew & Company's financial advisors can help you determine when to begin taking Social Security, based on your unique financial situation and personal needs.

If you have any questions about this topic or any of the articles in our newsletter, please contact our office at (508) 753-8807.

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.[1] 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%.[2] Considering the rock-bottom rates on some short-term investments, this is higher than might be expected but well below the rate of inflation.[3] Even so, investors held about $4.3 trillion in money market funds.[4]

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.

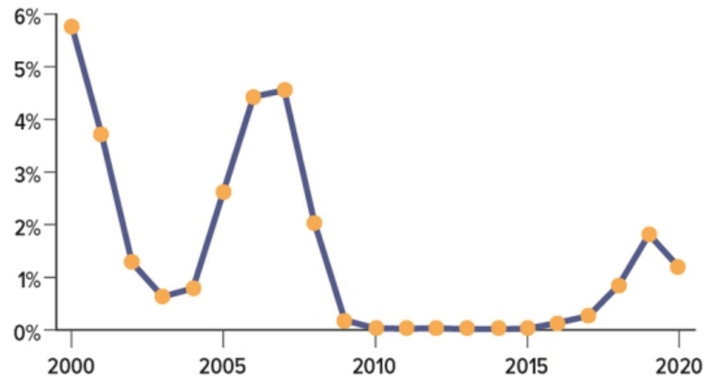
Money market funds are typically used as the "sweep account" for clearing brokerage transactions, and investors often keep cash proceeds in the fund on a temporary basis while looking for another investment. In a volatile market, it's not unusual to see large shifts into money market funds as investors 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.[5]

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)

Test Your Knowledge of College Financial Aid

Financial aid is essential for many families, even more so now in light of COVID-19. How much do you know about this important piece of the college financing puzzle?

1. If my child attends a more expensive college, we'll get more aid

Not necessarily. Colleges determine your expected family contribution, or EFC, based on the income and asset information you provide on the government's financial aid form, the Free Application for Federal Student Aid (FAFSA), and, where applicable, the College Scholarship Service (CSS) Profile (a form generally used by private colleges). Your EFC stays the same no matter what college your child attends. The difference between the cost of a particular college and your EFC equals your child's financial need, sometimes referred to as "demonstrated need." The more expensive a college is, the greater your child's financial need. But a greater financial need doesn't automatically translate into a bigger financial aid package. Colleges aren't required to meet 100% of your child's financial need.

Tip: Due to their large endowments, many elite colleges offer to meet 100% of demonstrated need, and they may also replace federal student loan awards with college grants in their aid packages. But not all colleges are so generous. "Percentage of need met" is a data point you can easily research for any college. This year, though, some colleges that are facing lower revenues due to the pandemic may need to adjust their financial aid guidelines and set higher thresholds for their aid awards.

2. I lost my job after submitting aid forms, but there's nothing I can do now

Not true. Generally, if your financial circumstances change significantly after you file the FAFSA (or the CSS Profile) and you can support this change with documentation, you can ask the financial aid counselor at your child's school to revisit your aid package; the financial aid office has the authority to make adjustments if there have been material changes to your family's income or assets.

Amid the pandemic, annual income projections for some families may now look very different than they did two years ago based on "prior-prior year" income (see graphic). Families who have lost jobs or received cuts in income may qualify for more aid than the FAFSA first calculated.

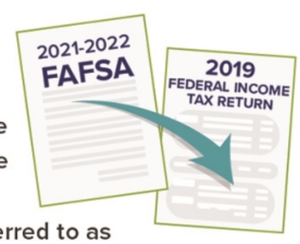
Tip: Parents should first check the school's financial aid website for instructions on how to proceed. An initial email is usually appropriate to create a record of correspondence, followed by documentation and likely additional communication. Keep in mind that financial aid offices are likely to be inundated with such requests this year, so inquire early and be proactive to help ensure that your request doesn't get lost in the shuffle.

3. My child won't qualify for aid because we make too much money

Not necessarily. While it's true that parent income is the main factor in determining aid eligibility, it's not the only factor. The number of children you'll have in college at the same time is a significant factor; for example, having two children in college will cut your EFC in half. Your assets, overall family size, and age of the older parent also factor into the equation.

Tip: Even if you think your child won't qualify for aid, there are still two reasons to consider submitting the FAFSA. First, all students, regardless of family income, who attend school at least half-time are eligible for unsubsidized federal Direct Loans, and the FAFSA is a prerequisite for these loans. ("Unsubsidized" means the student pays the interest that accrues during college, the grace period, and any loan deferment periods.) So if you want your child to have some "skin in the game" by taking on a small student loan, you'll need to submit the FAFSA. Second, the FAFSA is *always* a prerequisite for college need-based aid and is *sometimes* a prerequisite for college merit-based aid, so it's usually a good idea to submit this form to maximize your child's eligibility for both.

Prior-Prior Year for Income



The FAFSA relies on current asset information (as of the date you fill out the form) and income information based on your tax return from two years prior, referred to as the "prior-prior year." For example, the 2021-2022 FAFSA relies on information from your 2019 tax return.

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4. We own our home, so my child won't qualify for aid

It depends on the source of aid. The FAFSA does not take home equity into account when determining a family's expected family contribution, so owning your home won't affect your child's eligibility for aid. The FAFSA also excludes the value of retirement accounts, cash-value life insurance, and annuities.

Tip: The CSS Profile does collect home equity and vacation home information, and some colleges *may* use it when distributing their own institutional need-based aid.

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.