IT'S ASCENTIAL TO KNOW

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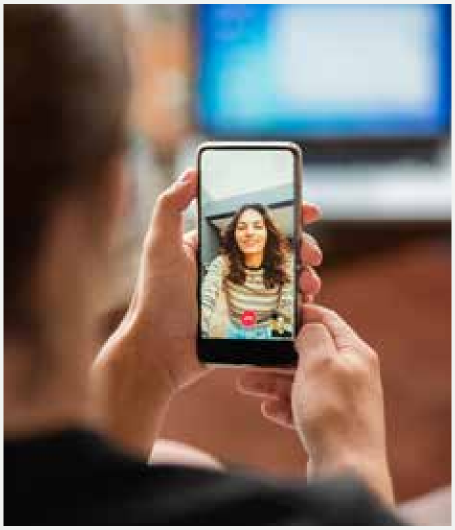
IN THIS ISSUE

2020 - A YEAR OF GRIEF, GROWTH, AND GRATITUDE

This year has been hard, filled with worry and stress about the economy and markets, politics, and most importantly, the health and well-being of ourselves and those we care about. Many normal stress reducers have been limited with entertainment and travel plans cancelled or postponed, and we haven't been able to spend as much time with family and friends. The uncertainty about when "normal" life might resume has been high, but we are hopeful that day is now in sight.

As financial advisors, many of the dreams we have helped you plan for have been put on hold, and we look forward to when they can resume again. For those who have lost friends and family this year, we offer our deepest sympathy. No matter what the cause, losing someone you care about is hard and the grieving process is especially difficult during a time like this.

As we look back on 2020, we feel sorrow for all that was lost, but are also thankful for many things and are looking ahead with hope and optimism. Gratitude for our health has been top of mind, and in many ways the pandemic offered clarity on what is truly important to us. 2020 was a lifechanging year, and will leave a lasting impression on all our lives, and also a new perspective as we move forward. Here are some of our reflections on the year and what is important to each of us as we look ahead.



What have you missed the most about normal life, or what are you most looking forward to when things can return to normal?

Alex: With the pandemic restrictions, it's been hard to connect with most of my family and friends. I am looking forward to getting back in the routine of spending time with them.

Barb: The thing I miss most is giving and getting hugs. Those that know me are aware that I love a "good" hug. We hug one another to express many emotions; gratitude, greeting, happiness, sadness and love to name just a few. Look out world when I can hug again, no one will be safe!

Brad: I missed going to my cabin in Canada and having a nice dinner at a restaurant.

Dan: I miss face-to-face social interaction with people for meetings, events, and gatherings. As we transition back to a normal life, I look forward to having family events, seeing friends & clients in person, eating at an indoor restaurant, and being able to visit Canada again.

What have you appreciated or enjoyed about this past year?

Dave: I have enjoyed a shorter commute to work.

Lori: I became more grateful for the beautiful area that is home – Duluth, MN. With no events on the schedule, we had more time for small family outdoor adventures. That allowed us to discover and experience several spectacular scenic spots in Duluth and the surrounding Northland area that we never seemed to have time to enjoy before. I enjoyed how even more active we became. Our family was either hiking, biking, swimming, tubing, strolling or gardening during the warmer months. We quickly recognized how lucky we are to have access to such incredible grandeur.

Kristin: I have appreciated the slower pace of life, not rushing from one thing to the next, and having peaceful time with my family. I plan to make a conscious effort to slow down more even when life returns to normal. I have also enjoyed walking my dogs before I start working in the morning and again at the end of the day, which is time I would normally spend driving kids around or commuting to the office.

Mike: I have enjoyed the amount to time my wife and I were able to spend with our daughters who are home from college for extended periods. We have had some memorable times talking about life, the future, our family etc. I have gotten to know them better over the last several months. These are times we never would have had without this pandemic. In a lot of ways, it has made this more tolerable.

ADDITIONAL USES FOR HEALTH SAVINGS FUNDS

We love the triple tax benefit that Health Savings Accounts (HSAs) can offer – tax deductions for contributions, tax deferral on growth, and tax-free distributions for qualified expenses. What is not to like? In addition to the normal medical costs for out-of-pocket expenses, prescriptions, etc., HSA funds can be used to pay for insurance premiums in specific circumstances.

MEDICARE: Once an account holder is 65, funds can be used to pay for certain Medicare premiums including: Parts A, B & D, copays for Part D, Medicare HMO, and Medicare Advantage.

COBRA/UNEMPLOYMENT: Those who find themselves on continuation healthcare coverage (COBRA) or are collecting unemployment may use their HSA money to pay for healthcare premiums as well.

LONG-TERM CARE: Certain long-term care policies are eligible to have a portion of their annual premiums reimbursed from HSA funds. To be eligible, the policy must provide coverage for only long-term care services and pay out if you need assistance with at least two activities of daily living or experience a cognitive impairment.

The eligible amount for reimbursement depends on the age of the policyholder. In 2021, the annual dollar limits for long-term care premium HSA reimbursement range from $450 for those under age 40 to $5,640 for those over age 70.

Save your medical receipts!
For those who are trying to preserve or grow their Health Savings Account balance, remember that you can save receipts for any qualifying expenses, and submit for reimbursement at a later date if you find you need to. As long as your HSA was active at the time the expense was incurred you can request for a reimbursement with no time limit.

If you are 65 or older, you can withdraw funds from a Health Savings Account for non-healthcare expenses and not pay a penalty. In this situation, you would pay income tax on the distribution amount, similar to if you were taking a withdrawal from an IRA. HSAs also are not subject to required minimum distributions and can be passed on to designated beneficiaries, so they can serve as a good, tax-friendly retirement planning tool as well.

We consider the tax consequences when selecting investments, rebalancing portfolios, or recommending withdrawal strategies, as taxes are an almost inevitable part of investing. There are several ways that your investments can impact your tax liability, here are some of the basics.

INTEREST INCOME: Bonds, money market, and certificates of deposit all generate interest income, paying holders at regular intervals based on a stated rate of interest. This type of income is generally taxed at your marginal tax rate in the year it is received.

CAPITAL GAINS: When you purchase a security that rises in value and subsequently sell it for a profit, that is a capital gain. The difference between the purchase price and the sale price of the security is the amount of the gain, and whether it has been held for less than one year or more than one year determines the tax treatment.

- **Short-term Gains:** These are gains on a security that is purchased and sold within one-year. Short-term gains are taxed at your ordinary income tax rate.
- **Long-term Gains:** If a security is held for more than a year prior to being sold, the gain is not taxed as income. Long-term gains receive preferential treatment with most being taxed at either a 0%, 15%, or 20% tax rate depending on what tax bracket you fall into.
- **Mutual Fund Gains Distributions:** In addition to gains realized by selling securities, mutual funds can distribute capital gains to their shareholders, and these distributions can be classified as either short-term or long-term gains. Mutual fund gains distributions are taxed just like gains realized from the actual sale of a security, with the taxation determined by the holding period as specified above.

Capital gains can be offset by capital losses (selling a security for less than you paid for it). If you have positions that are worth less than what you paid, they can be sold for a loss which can basically cancel out gains incurred in the same year. If you incur more losses than gains in a given tax year, up to $3,000 of net capital loss can be used to offset ordinary income. Losses above that threshold will create a carryforward to be used against gains or income in subsequent years.

We look for opportunities to utilize losses to offset gains when possible, as you only pay taxes on any net capital gains you report. Tax loss selling is an important strategy that we recommend whenever it makes sense. The 1099 tax form aggregates all of the gain/loss information for tax filing each year.

DIVIDENDS: Many stocks pay dividends to shareholders on a regular basis as a way to distribute the earnings of the company. Mutual funds will pass the dividend payments of the stocks held in the fund to shareholders as dividend distributions as well. The IRS categorizes dividends as either "qualified" or "ordinary", which determines the applicable tax rate and is reported as such on the 1099 tax form.

- **Qualified Dividends:** These dividends meet the IRS criteria to be considered for preferential tax treatment and are taxed at the same rates as long-term capital gains.
- **Ordinary Dividends:** Dividends that are classified as ordinary are taxed at the taxpayers' ordinary income tax rate like other income or short-term capital gains.

RETIREMENT ACCOUNT DISTRIBUTIONS: Withdrawals from certain types of retirement accounts are taxable, while others are not. Generally, the rule of thumb for determining taxation is if the money in the account has never been taxed (i.e. you took a tax deduction for the contributions) then you will pay taxes when you take it out. If you already paid taxes on the money used for contributions, then withdrawals from that account are not taxed.

- **Traditional IRA, 401k, 403b:** These accounts are generally funded with pre-tax dollars and the earnings grow tax deferred until you make a withdrawal. Any dollars you take out of these pre-tax contribution accounts will be considered income and taxed at your ordinary income rate.
- **Roth IRA/401k:** Roths are funded with after-tax dollars meaning no tax deduction was taken for contributions, so the distributions are not taxed either.

Withdrawing funds from retirement accounts prior to age 59 ½ can also trigger a 10% early withdrawal penalty on top of any other tax liability, although there are some exceptions to this. Understanding the consequences of various types of distributions is an important part of a retirement income strategy.

We help clients navigate the complex relationship between their portfolio and tax bill. In addition, we commonly work with clients' accountants to come up with tax smart solutions that fit their unique situation. A successful investor is likely to pay taxes at some point, but we aim to help make it as efficient as possible.

2021 CONTRIBUTIONS

Retirement Contribution Limits		
	2020	2021
IRA/Roth IRA	$6,000	$6,000
Over 50 Catch-up	$1,000	$1,000
SIMPLE IRA	$13,500	$13,500
Over 50 Catch-up	$3,000	$3,000
401(k)	$19,500	$19,500
Over 50 Catch-up	$6,500	$6,500

Health Savings Plan Contributions		
	2020	2021
Individual	$3,550	$3,600
Family	$7,100	$7,200
Over 55 Catch-up	$1,000	$1,000
Min. Annual Deductible		
Individual	$1,400	$1,400
Family	$2,800	$2,800
Max. Out-of-Pocket		
Individual	$6,900	$7,000
Family	$13,800	$14,000

From left:

Barb Perrault, *Registered Client Services Mgr.*
Lori Spilde, *Client Services Manager*
Brad Christiansen, *Financial Advisor*
Daniel Maki, *Financial Advisor*
Dave Kohlhaas, *Financial Advisor*
Kristin Rognerud, *Financial Advisor*
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DISCLOSURES