Financial *focus*

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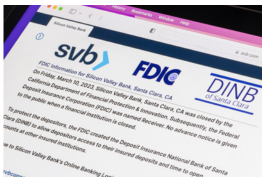

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Silicon Valley Bank and Signature Bank: **No Need to Panic**

Ken Robinson, JD, CFP®
Rocky River, OH

Step one: take a deep, slow breath.
Step two: make sure your bank balances are within the FDIC insurance limits.
Step three: if you have questions, call us.
Step four: read on, if you want to know more about what happened.
Then get on with your life.

There's been a ton of news and analysis about March 2023's bank failures, but some of the most sensible commentary we've seen has come from our friends at Concierge CPAs. They're business, accounting, and tax advisers with offices in Ohio and Texas (and are also Practical Financial Planning's CPAs). The following is based on their commentary of Monday, March 13, 2023 (used with their kind permission).

Silicon Valley Bank (SVB) was the go-to lender for many California-based tech companies. On March 10th, SVB met a swift end after "facing a sudden bank run and capital crisis; it collapsed Friday morning and was taken over by federal regulators." (CNN, "How does a bank collapse in 48 hours? A timeline of the SVB fall.") Signature Bank followed over the weekend.

How the Government Intervened

In a joint statement, the US Treasury, the Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC) stated that FDIC will guarantee all deposits at SVB and Signature Bank, not limited to the normal $250,000 per depositor per bank. "Any losses to the Deposit Insurance Fund to support uninsured depositors will be recovered by a special assessment on banks, as required by law," meaning that taxpayers will not foot the bill for the loss.

You may have heard of losses the government is not preventing. Those are the losses to investors in the banks' stock and bonds, not the banks' depositors.

Why There's No Need to Panic

Most banks in the US banking system have much more diversified portfolios than SVB, which invested and banked heavily with tech and venture capital firms.

Leading financial experts see this bank collapse as regional- and industry-specific.

SVB had assets of about $200 billion, which made up about 0.91% of the US banking industry's assets on the whole.

FDIC insures traditional bank deposits up to a limit of $250,000 per depositor per bank. Most of the time, when FDIC acts, they take over the bank on Friday, and it re-open with insured deposits available on Monday. That's exactly what happened with Silicon Valley Bank, except that deposits even beyond the FDIC limits were immediately available. While we shouldn't count on FDIC agreeing to insure more than their limits again, most of us can adequately protect our cash by making sure we don't exceed the insured limit at any one bank.

Media analysis and comment

As you read these, remember, this story has moved quite quickly. There are likely to be important updates after this article is published.

PBS Newshour, "Analysis: What Silicon Valley Bank collapse means for the U.S. financial system." March 13, 2023:

> At the end of 2022, SVB was the 16th-largest bank in the United States with $209 billion in assets.
>
> That sounds like a lot – and it is – but that's just 0.91% of all banking assets in the U.S. There is little risk that SVB's failure will spill over to other banks.
>
> Having said that, SVB's collapse does highlight the risk that many banks have in their investment portfolios. If interest rates continue to rise, and the Federal Reserve has indicated that they will, the value of the investment portfolios of banks across the U.S. will continue to go down.
>
> While these losses are just on paper – meaning they're not realized until the assets are sold – they still can increase a bank's overall risk. How much the risk will go up will vary from bank to bank.
>
> The good news is that most banks currently have enough capital to absorb these losses – however large – in part because of efforts taken by the Fed after the 2008 financial crisis to ensure financial firms can weather any storm.

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Possibilities in a Pie Plate – or Crèche

Miriam Whiteley, CFP®, RLP®, CeFT®
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Who Gets Grandma's Yellow Pie Plate? A Guide to Passing on Personal Possessions has terrific worksheets that help families navigate the challenges involved in determining who gets the "stuff"—not the cars, houses, bank, and retirement accounts but the personal possessions that are imbued with sentimental value. Their fate can tear families apart. Available from University of Minnesota Extension, this workbook is a great resource to help you to plan, or to help surviving family members distribute "stuff".

See this crèche? My siblings and I discovered it in a box of Christmas treasures after my mom died. Unopened for years, I thought it had been lost. My overwhelming emotion at seeing the little Hallmark card box with these plastic figures was met by fascination among my siblings—no one knew that I would rearrange all the characters every Christmas when I was young.

The journey from unpacking that crèche in my mom's apartment to coming out at my home every Christmas is a long and treacherous one that I wouldn't wish on anyone. I think that's probably why I encourage my clients so enthusiastically to think about how to manage expectations—when it comes to the stuff they leave behind.

There are lots of good reasons to avoid dealing with this. For one thing, it's likely the pie plate for your famous pecan pie is so familiar that you can't even imagine the civil war it might trigger after your death. It's only a pie plate to you, right? But that pie plate—or crèche—might symbolize what your family has lost in your passing and provoke an acute experience of grief.

Then there's the question of fairness. I told my three children many times that fair and the same were two different things. But perceptions of what is fair differ. What makes these valuable treasures special is their uniqueness. It's not possible to settle a perception of unfairness by giving everyone the same thing or breaking it up into pieces.

Have you ever stopped and considered what these items embody? Things like wedding photographs or your dad's hammer carry personal meaning. What makes these items "non-titled," is that they are without specific instructions about where to go, unlike the beneficiary designations on your life insurance and retirement accounts. It will be left to your family and legal representatives to decide where your "stuff" goes.
Planning ahead can be challenging. The possibility I want to inspire is that planning for the transfer of these items gives you the opportunity now to preserve their beauty and meaning to you —and possibly avoid the tears in the woof and warp of family tapestries when this advance planning isn't done.

Here are some ideas:

Start by making a quick list of the property and possessions that you treasure. I suggest three columns: Type, Description, Location. Type examples: Jewelry,Clothing ; Hobby supplies, Creations; Books, Cookbooks; Sentimental (photographs, letters, journals, baby items)

What are your reasons for completing this task? Which reasons are most important:

- maintain harmony within my family
- give myself peace of mind
- learn what items are important to family members
- tell others what personal items have value to me
- decide what I think is fair, or discover what my family thinks fair is
- record personal and family history embodied in items
- explore my goals and what I want to accomplish

What challenges do you see in this process? What alternatives or options do you see for meeting these challenges?

What experience would you like to create for yourself and those around you?

How will important relationships be impacted? What can protect relationships?

Who else do I/we need to involve in this process?

Now consider the items on the list. Are there items you assume someone wants? Or you expect they want? List those: Who, What, Why, When, How I/we feel

Create a "Property Decisions" list and keep it with your Letter of Instruction. Location, item, description, when, to whom.

Financial Literacy for Young Adults

Wendy Marsden, CPA CFP®
Greenfield, MA

{I recently had the opportunity to meet with some people in their late teens to answer their questions. This is the letter I wrote them afterward.}

The thing with being an adult is that you generally have to hear the same information from a couple of different directions before it starts to gel. So the stuff I talked with you about last night is once, and this email can be a second, and then when you encounter these concepts later in the wild you'll be ready for them to click.

We talked about a number of different topics. I'm going to break them out that way in this email so you can skip to the part you are ready to listen to. ;p

Regarding taxes, here are three things you should know:

I told you that the Federal withholding tables are broken. You probably shrugged and figured it was some sort of political commentary or something: surely the government couldn't do something so basic so very wrong? But the Federal withholding tables only really work if you're a one-job household. One job just doesn't know what the other job will make. So the solution here is to aim to make sure your withholding is around 10% for the Federal taxes once your income is over about $12,000/year. You can change the W-4 anytime you want. I generally recommend putting 0 for the exemptions and then adding extra to be withheld each week once you've looked at a paystub and can see how the withholding will work. (The state withholding tables work, just say 0 exemptions and you'll be fine.)

Tax returns are a reconciliation tool to put down what you REALLY earned and what you REALLY paid in taxes already, then compare it to what is calculated you'd owe now that the whole picture is in place. The tricky part isn't usually figuring the tax, it's figuring the taxable income after we throw in the things that you are allowed to deduct against it.

We also use the tax return to administer a bunch of anti-poverty programs like the Earned Income Tax Credit, and to disperse tax credits for things like tuition paid and solar panels installed, things like that. It's just a handy moment to total up what the government owes you as they're generally based on your income.

Types of accounts. We talked about how you can "title" an account in a bunch of ways, which will cause them to be taxed differently. The basic default type of account is to title it as an individual or joint checking at a bank, or an online savings account (individual or joint). But there are several other types of accounts. This is beautifully illustrated (if I do say so myself) in the AGDEWT chart on the left. Click to embiggen. But the short version is that besides bank accounts, there are also:

- Individual or joint brokerage accounts,
- Roth IRAs (IRAs stand for Individual Retirement Arrangement: they can't be joint.)
- Workplace tax-deferred and Roth accounts,
- Your own Traditional IRA (that I referred to as a bucket to collect all the drips from previous employer plans, and
- Health Savings Accounts are for people who ever had a high-deductible health insurance plan.

How to do a budget/bill-pay.
I mentioned that Quicken is a great checkbook register program that you can use to track all your past spending, but it's not very helpful for figuring out where your next dollar should go. For that, the killer app is YNAB.com, a program that lets you tell your money where it needs to go to fill up envelopes for essential spending (groceries, rent) but also rainy day spending (new tires, winter clothes). It's good in conjunction with short-term savings accounts like at Ally.com, but also really helpful for building up a rainy day cushion in your operating bank account. Two of my adult children use it, while the third uses his self-made excel sheets. The gist of it is to make sure money is where it needs to be when it needs to be there.

A	G	D	E	W	T
Account Type/Titling	**Goal for this Money**	**Deductible Going In?**	**Earnings Taxed?**	**Withdrawals Taxed?**	**Tax Rate**
1 **Savings & Checking accounts at Banks and Certificate of Deposits that aren't IRAs**	1 Near-term use. Operating cash. Liquidity. Emergency Money.	1 No deduction for putting the money in your account.	1 Each year you have to pay taxes on whatever it earned, even if you reinvest it.	1 No taxes are due when you withdraw it. You just spend it.	1 Earnings are taxed as ordinary income taxes in the year they're earned.
2 **Stocks & Mutual Funds in a Individual, Joint or Trust Brokerage accounts**	2 Any reason. Emergency Money. Stocks for longer-term goals. Bonds for 1-3 year timeframe.	2 No deduction for putting the money in your account.	2 Each year you have to pay taxes on whatever it earned, even if you reinvest it.	2 No taxes are due when you withdraw it. You just spend it.	2 Earnings are mostly taxed at long-term capital gains rates, which are generally substantially less than ordinary income tax rates.
3 **Roth IRAs, whether at a bank or in an investment account**	3 Any reason. Emergency Money. Stocks for longer-term goals. Bonds for 1-3 year timeframe.	3 No deduction for putting the money in your account.	3 No taxes are due on earnings as they reinvest.	3 No taxes are due when you withdraw it as long as you meet some rules that are fairly easy to meet.	3 Earnings are never taxed as long as you meet some fairly easy-to-meet rules.
4 **Traditional IRA** (your bucket to catch drips from employer-provided plans over the years)	4 Retirement. Your duty of care of the old person you'll be someday.	4 Deduction for putting in the money, subject to earnings limits.	4 Taxes are deferred until you take the money out, so grows untaxed.	4 It's all taxable when you withdraw it, quite likely at the highest bracket of your life.	4 The tax rate is whatever your ordinary tax rate is at the time you withdraw it, but income from this can cause you to lose benefits.
5 **Workplace tax-deferred 401(k), 403(b) or the like and the employer's match to your Roth 401(k)**	5 Retirement. Your duty of care of the old person you'll be someday.	5 Deduction for putting in the money, NOT subject to earnings limits.	5 Taxes are deferred until you take the money out, so grows untaxed.	5 It's all taxable when you withdraw it, maybe with a penalty. Fixable by rolling it into your Traditional IRA, though.	5 The tax rate is whatever your ordinary tax rate is at the time you withdraw it, but income from this can cause you to lose benefits.
6 **Workplace Roth 401(k), 403(b) (your own contributions only)**	6 Many reasons. Stocks for longer-term goals. Bonds for 1-3 year timeframe. Some emergency money.	6 No deduction for putting the money in your account.	6 No taxes are due on earnings as they reinvest.	6 No taxes are due when you withdraw it as long as you meet some rules that are fairly easy to meet.	6 Earnings are never taxed as long as you meet some fairly easy-to-meet rules.
7 **Health Savings Account**	7 Retirement savings you can access for medical expenses.	7 Deduction for putting in the money, if have eligible high-deductible health insurance plan.	7 No taxes are due on earnings as they reinvest.	7 No taxes are due when you withdraw it as long as you meet some rules that are fairly easy to meet.	7 Earnings are never taxed as long as you meet some fairly easy-to-meet rules.

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I spent WAY too much time making this chart beautiful!

Otherwise, you'll see money accumulating and think, "oh, I've got money for a weekend in Vermont!" when you ACTUALLY have money saved towards the expected vet bills an old cat will have.

We also talked about how emergency money is DIFFERENT than rainy day money. Emergencies are for things you don't expect. If nothing unexpected happens, it's for old age. On the other hand, it rains every other day. Rainy day money is a way to spread out likely annual expenses that WILL land, we just don't know when exactly.

We talked a bit about how it's nice to have parents that help you with large capital expenses that provide you with a start in life, but how it's somewhat infantilizing for them to help you with everyday operating costs. The need to buy groceries and pay your car insurance bill is what forces you to do the annoying work of getting a job.

I talked about the best way to fix a budget: earn more. A great book that made a big impact on me years ago was Overcoming Underearning by Barbara Stanny. Another trick is to ask a man what he'd accept as a salary and then ask for that! (Women tend to accept 15% less than men, uggh.)

A great idea is to do a moonlighting job to save for a short-term goal (like replenishing your emergency money). We learn in ALL our scut jobs. Don't look down on any.

I talked about "massive action", and visualizing your best life.

I asked you to stop and do some dreaming about what your perfect life will be like when you're 28. Where are you? City or country? Are

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Silicon Valley Bank and Signature Bank: **No Need to Panic** *Cont.*

Ken Robinson, JD, CFP®

> So rest easy for now, the banking system is sound.

USA Today, "What Silicon Valley Bank collapse means – and why it's not 2008 again." March 11, 2023:

> Other banks are far more diversified across multiple industries, customer bases and geographies. The most recent round of "stress tests" by the Federal Reserve of the largest banks and financial institutions showed that all of them would survive a deep recession and a significant drop in unemployment.

Forbes, "FDIC Shutdown Of SVB Sparks Banking Crisis Fears, But For Now, Bank's Collapse Is Just A Cautionary Tale." March 13, 2023:

> Most analysts shared a similar perspective, with CFRA Research maintaining its "neutral outlook" on diversified U.S. banks.
>
> We do not see the Silvergate (SI) and SVB Group (SIVB) meltdown as a fundamental or liquidity risk for the large banks on unrealized long-term bond maturity losses (U.S. Treasuries and mortgage-backed securities)," said Kenneth Leon, research director at CFRA, in an email on March 10. "Large bank deposits have a diversified customer base (especially low-cost consumer deposits) … SIVB had concentration risk to deposits in the technology and venture capital industry. …
>
> Unless you were a depositor or investor at SVB, this bank failure is unlikely to impact you.

Washington Post, "Is this a bailout and 6 other questions about the SVB collapse" (paywall), March 13, 2023

> President Biden also said Monday that he would push Congress and banking regulators "to strengthen the rules for banks to make it less likely this kind of bank failure would happen again and to protect American jobs and small businesses." On a call with reporters, a Treasury official emphasized that the federal intervention would not bring SVB or Signature back to life, as the enormously controversial bank bailouts during the 2008 financial crisis had done for banks that were close to failing. Their executives would not retain their jobs. These new safeguards were aimed at protecting people and businesses who had made a reasonable decision to put their money into an accredited and regulated bank — not investors who bought risky securities. Crucially, the Treasury official also emphasized, the money used to reimburse the depositors would come from a fund paid into by U.S. banks. Treasury Secretary Janet L. Yellen and Biden both released statements Sunday night underscoring that taxpayers will not pay to rescue depositors because the bank fund would cover any costs.

Another decade, another crisis

News like this comes up from time to time, and there always seems to be some new, unthought-of twist in the story. That new-ness is part of what makes it a crisis.

But these crises always pass. And protecting yourself from them is simple: a well-diversified investment portfolio, sensible measures like making sure you don't put more into any one bank than is covered by FDIC, and a financial plan with a holistic view that focuses on more than just your investments.

The news may be different this time, but the financially healthy approach isn't built on news. It's built on stronger, more enduring foundations. As we've said before, and as we'll no doubt say again, there's no need to panic.

Financial Literacy for Young Adults *Cont.*

Wendy Marsden, CPA, CFP®

you working with people or alone? Are you working inside or outside? Are you doing detailed work or is showing up and doing your best each day enough to succeed? (Accountants can't say "meh, close enough", but teachers sort of can!) Do you want to be sitting at a desk or moving around during the day? Do you want the safety of a career in a governmental agency, or would you like the risk/reward of being self-employed? Just sit and imagine your best possible life. Don't worry about trying to figure out how to get there, just really VISUALIZE what success would look like to you. This exercise is super useful because you'll now be primed to notice an opportunity as it arises that might lead you in that direction.

Massive action is where you commit to taking action until you get your desired result. If you apply for 3 jobs you might not get one. But if you keep applying, using what you've learned, after 300 you certainly will!

We talked about going to grad school in a non-funded program straight out of college. That's usually a terrible idea. A far better idea is to go work for a while in the general industry you're thinking of joining after grad school and see what you like. Even better is to try to get a job at a place that pays tuition for its employees. I'm paying for my paraplanner to become a Certified Financial Planner. Colleges give tuition waivers to their employees. Various agencies will pay for you to get a graduate degree in the field they've hired you into. Look for those jobs.

I have more to say about retirement plans, but that's a story for another day.

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