

Seide Financial Notes



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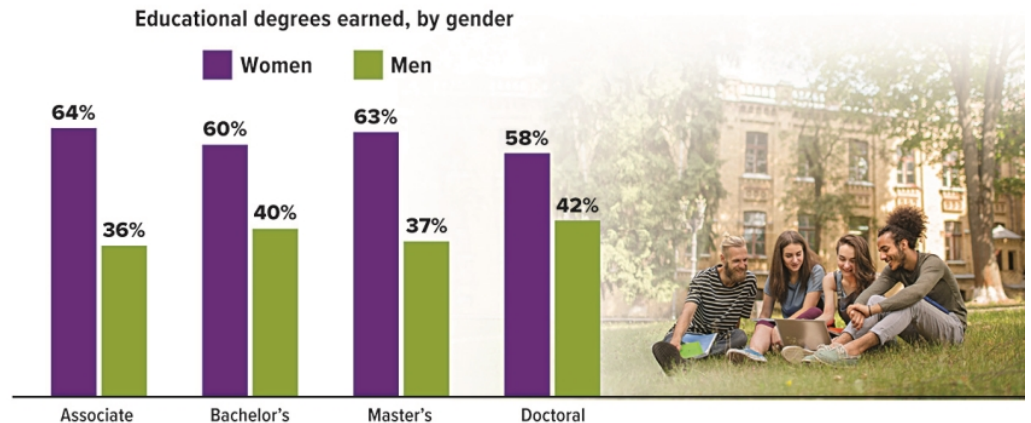


June is here, with that we hope you have a relaxing summer! Celebrate with us as we appreciate the fathers that have made a difference in our lives. Explore our latest updates and insights, sparking your journey to success this season.

-Todd, Dawn, Steve, Michael and Brooke

More Women Than Men Earn College Degrees

About 1,019,000 associate degrees, 2,136,000 bachelor's degrees, 860,000 master's degrees, and 206,200 doctoral degrees (which include medical and law degrees) are projected to be awarded during the 2023–2024 academic year. More women than men will attain undergraduate and graduate degrees at every level, a trend that is expected to continue.



Source: National Center for Education Statistics, 2023 (projected data)

A Pension Strategy that May Boost Your Income

If you participate in a traditional pension plan (also known as a defined benefit plan), your plan may offer several payout options including "qualified joint and survivor annuity" (QJSA) if you are married. A QJSA is an annuity that pays a dollar amount (usually monthly) for the rest of your life, with at least 50% of that amount continuing to your spouse after your death. However, if your spouse consents in writing, you can waive the QJSA and elect instead to receive a single-life annuity. With a single-life annuity, payments are made over your lifetime but stop upon your death. For example, if you receive just one payment after retirement and then die, the single-life annuity would end, and the plan would make no further payments.

Why elect a single-life option instead of the QJSA?

The single-life annuity generally pays a significantly larger pension benefit than the QJSA. That's because the payments are designed to last for one lifetime instead of two. Pension plan participants who want to maximize their monthly retirement income are often tempted to choose the single-life annuity for this reason. However, most pensioners are also concerned about providing for their spouses if they should die first.

What is pension maximization?

Pension maximization is a strategy that may help solve this dilemma. The way it works is that your spouse waives the QJSA and you elect the single-life annuity. You then use the additional pension income to purchase insurance on your life, with your spouse named as beneficiary. If you die first, the pension payments will stop, but your spouse will receive the life insurance death proceeds free from federal income tax. The idea is that by coupling the larger pension payments with the purchase of a life insurance policy on your life, you may be able to increase your total income during retirement, while also providing for your spouse's financial future if you die first.

Is pension maximization right for you?

There are a number of factors to consider. Are you insurable? If not, pension maximization is not a viable strategy. How much will the life insurance cost? (If you are relatively young and in good health, the insurance premiums may be much more affordable than if you are older and/or in poor health.) How much more does the single-life annuity pay than the QJSA? The larger the benefits under the single-life annuity, the more life insurance you'll probably want to buy. (Also make sure to factor in any cost-of-living adjustment the pension plan may provide when analyzing your payment options.) How healthy is your spouse, and what is his/her life expectancy?

Advantages and Disadvantages of Pension Maximization

Advantages:



- Increased retirement income potential
- More flexibility and control
- May provide assets for your heirs and beneficiaries

Disadvantages:



- Cost of life insurance
- Income from life insurance may be insufficient
- Life insurance policy could lapse

Are there income tax considerations?

The monthly retirement benefits you and your spouse receive from your pension are generally treated as taxable income, subject to federal (and possibly state and local) income tax. This is true regardless of whether you elect a single-life annuity payout or a QJSA. However, since the pension benefits are larger with a single-life annuity, electing that payout option will increase your taxable income during retirement. If you elect the QJSA payout, when the first spouse dies, the pension payout to the survivor will be included in the survivor's taxable income.

If you instead use the pension maximization strategy and die before your spouse, the life insurance death benefits will not be included in your surviving spouse's taxable income, because life insurance death benefits generally pass free from income tax to the beneficiary of the policy. Any earnings from investments of the life insurance proceeds by your surviving spouse (e.g., interest, dividends, and capital gains) may generally be included in your spouse's taxable income.

The pension maximization strategy is not for everyone, but it could be worth considering as you and your spouse evaluate your pension benefit options. (Note: Any guarantees associated with payment of death benefits, income options, or rates of return are based on the financial strength and claims-paying ability of the insurer. Policy loans and withdrawals will reduce the policy's cash value and death benefit.)

Caution: *While life insurance proceeds are generally free from income tax to the beneficiary, estate taxes are another matter. If this is a concern, you should consult a qualified estate planning attorney for appropriate strategies.*

Be sure to seek qualified professional guidance, since choosing a pension payout option and life insurance coverage can be complex and will impact both your financial future and your spouse's.

Investor, Know Thyself: How Your Biases Can Affect Investment Decisions

Traditional economic models are based on the premise that people make rational decisions to maximize economic and financial benefits. In reality, most humans don't make decisions like robots. While logic does guide us, feelings and emotions — such as fear, excitement, and a desire to be part of the "in" crowd — are also at work.

In recent decades, another school of thought has emerged. This field — known as behavioral economics or behavioral finance — has identified unconscious cognitive biases that can influence even the most stoic investor. Understanding these biases may help you avoid questionable financial decisions.

Sound familiar?

What follows is a brief summary of how some common biases can influence financial decision-making. Can you relate to any of these scenarios?

Anchoring refers to the tendency to become attached to something, even when it may not make sense. Examples include a home that becomes too much to care for or a piece of information that is believed to be true despite contradictory evidence. In investing, it can refer to the tendency to hold an investment too long or rely too much on a certain piece of data or information.

Loss aversion bias describes the tendency to fear losses more than to celebrate gains. For example, you may experience joy at the chance of becoming \$5,000 richer, but the fear of losing \$5,000 might provoke a far greater anxiety, causing you to take on less investment risk than might be necessary to pursue your goals.

The **endowment effect** is similar to anchoring in that it encourages you to "endow" what you currently own with a greater value than other possibilities. You may presume the investments in your portfolio are of higher quality than other available alternatives, simply because you own them.

Overconfidence is having so much confidence in your own ability to select investments that you might discount warning signals or the perspective of more experienced professionals.

Confirmation bias is the tendency to assign more authority to opinions that agree with your own. For example, you might give more credence to an analyst report that favors a stock you recently purchased, in spite of several other reports indicating a neutral or negative outlook.

The **bandwagon effect**, also known as **herd behavior**, happens when decisions are made simply because "everyone else is doing it." This can result in buying high and selling low — what most knowledgeable investors strive to avoid.

Risk of Missing Out

Emotion-based decisions can have a significant impact on your portfolio over time. Consider how much a long-term investor might have lost by shifting in and out of the market due to fear, overconfidence, or following the herd, and subsequently missing the best-performing days over the 10-year period ended 2023.



Source: Yahoo Finance, 2024, S&P 500 Index for the period 12/31/2013 to 12/31/2023. The S&P 500 Index is an unmanaged group of securities considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in any index. Past performance is no guarantee of future results. Actual results will vary.

Recency bias refers to the fact that recent events can have a stronger influence on your decisions than those in the past. For example, if you were severely affected by market gyrations in the early days of the pandemic, you may have wanted to sell your stock holdings due to fear. Conversely, if you were encouraged by the stock market's strong performance in 2023, you may have wanted to pour all your money into equities. Yet either of these actions might not have been appropriate for your investment goals and personal circumstances.

An objective view can help

When it comes to our finances, instincts may work against us. Before taking any actions with your portfolio, it might be wise to seek the counsel of a qualified financial professional who can help you identify any unconscious biases at work.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. There is no assurance that working with a financial professional will improve investment results.

Can Home Improvements Lower Your Tax Bill? It Depends

Most home improvements are not tax deductible — with one possible exception. In certain situations, you may be able to deduct improvements deemed necessary for medical reasons (not just beneficial to general health). If you itemize instead of taking the standard deduction, you can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income, so the tax savings could be significant if a costly home improvement pushes your total medical expenses above that threshold. Installing air conditioning to help treat asthma or modifying a home to make it wheelchair accessible are common examples of qualifying expenses.

Here are two more ways that improving your home could potentially reduce your tax burden.

Capital improvements

Projects that add to the value of your home, prolong its life, or adapt it to new uses are considered capital improvements. When you sell your home in the future, you can add the cost of capital improvements to your initial basis (what you paid for it originally), reducing your capital gain and the resulting tax bill.

Some examples of capital improvements include remodeling the kitchen, replacing all your home's windows, adding a bathroom, or installing a new roof. Repairs that keep your home in good condition (such as repainting, replacing a broken door or window, or fixing a leak) don't count as capital improvements.

However, an entire repair job may be considered an improvement if it's done as part of an extensive remodel or restoration.

Energy-saving tax credits

The Inflation Reduction Act of 2022 reconfigured two nonrefundable tax credits for home improvements that save energy. Unlike a deduction, which reduces your taxable income, a tax credit lowers your tax bill dollar for dollar. Both credits are available only for the installation of new products that meet specific energy efficiency requirements.

The energy efficient home improvement credit is equal to 30% of qualified expenditures for an existing home (not new construction). A \$3,200 maximum annual credit is available through 2032. A \$2,000 limit (30% of all costs, including labor) applies to electric or natural gas heat pumps, heat pump water heaters, and biomass stoves and boilers. A separate \$1,200 limit applies to home energy audits and building envelope components (such as exterior doors, windows, skylights, and insulation) and energy property (including central air conditioners).

The residential clean energy property credit is a 30% tax credit available for qualifying expenditures for clean energy property (and related labor costs) such as solar panels, solar water heaters, geothermal heat pumps, wind turbines, fuel cells, and battery storage.

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