Breed's Hill Newsletter

Planning Your Financial Future

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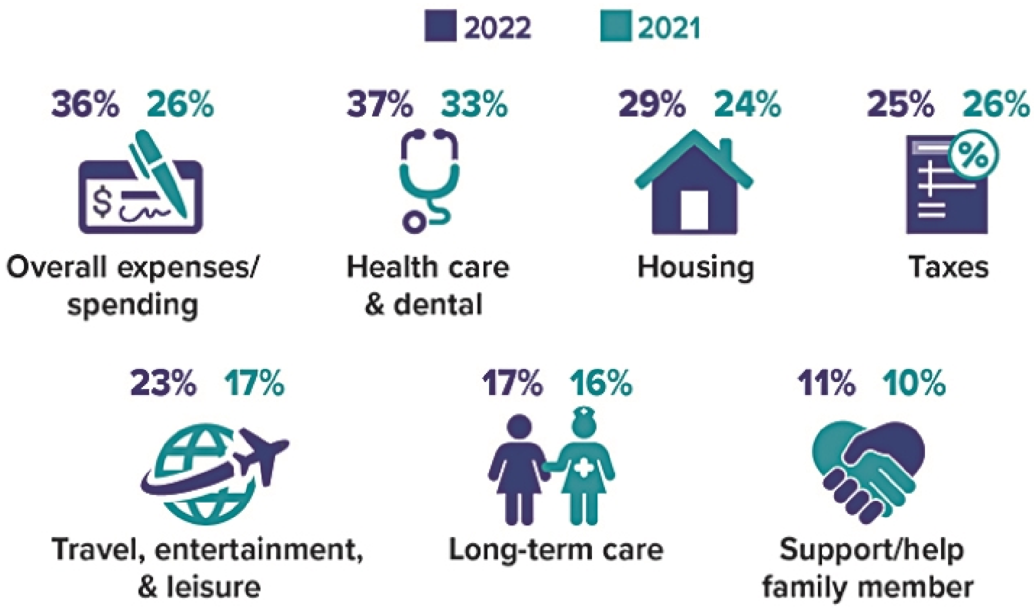
Spending Higher Than Expected for More Retirees in 2022

Considering high inflation, it's not surprising that the percentage of retirees who said their spending was higher than expected increased in 2022 over 2021. These surveys were conducted in January of each year, so with inflation continuing to run high, it's likely that even more retirees may be experiencing unexpected spending.



Source: Employee Benefit Research Institute, 2022

Year-End 2022 Tax Tips

Here are some things to consider as you weigh potential tax moves before the end of the year.

Set Aside Time to Plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

Defer Income to Next Year

Consider opportunities to defer income to 2023, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services in order to postpone payment of tax on the income until next year.

Accelerate Deductions

Look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2023) could make a difference on your 2022 return.

Make Deductible Charitable Contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your adjusted gross income (AGI), depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

Increase Withholding

If it looks as though you're going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck.

Save More for Retirement

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your 2022 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2022, you can contribute up to $20,500 to a 401(k) plan ($27,000 if you're age 50 or older) and up to $6,000 to traditional and Roth IRAs combined ($7,000 if you're age 50 or older). The window to make 2022 contributions to an employer plan generally closes at the end of the year, while you have until April 18, 2023, to make 2022 IRA contributions. (Roth contributions are not deductible, but qualified Roth distributions are not taxable.)

Take Any Required Distributions

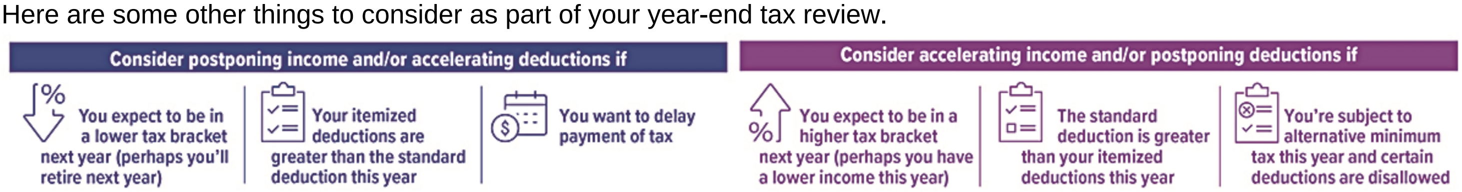
If you are age 72 or older, you generally must take required minimum distributions (RMDs) from your traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required. Annual distributions from inherited retirement accounts are generally required by beneficiaries (as well as under the 10-year rule); there are special rules for spouses.

Weigh Year-End Investment Moves

Though you shouldn't let tax considerations drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

More to Consider

Here are some other things to consider as part of your year-end tax review.



Consider a Bond Ladder for Rising Interest Rates

After dropping the benchmark federal funds rate to a range of 0%–0.25% early in the pandemic, the Federal Open Market Committee of the Federal Reserve has begun raising the rate aggressively in response to high inflation and a stronger economy.

Following 0.25% and 0.50% increases in March and May 2022, the Committee implemented successive 0.75% increases at its June and July meetings — the first 0.75% increases since 1994 — to a target range of 2.25%–2.50%. June projections (most recent available) indicate the rate could rise to a range of 3.25%–3.5% by the end of 2022 with an additional one or two 0.25% increases in 2023.[1]

Rates and Bond Prices

Raising the federal funds rate places upward pressure on a wide range of interest rates, including the cost of borrowing through bond issues. When interest rates go up, the prices of existing bonds typically fall, because new bonds with higher yields are more attractive. Investors are also less willing to tie up their funds for a long time, so bonds with longer maturity dates are generally more sensitive to rate changes than shorter-dated bonds. Yet shorter-dated bonds usually have lower yields.

Despite the challenges, bonds are a mainstay for conservative investors who may prioritize the preservation of principal over returns, as well as retirees in need of a predictable income stream.

Step by Step

One way to address rising rates is to create a bond ladder, a portfolio of bonds with maturities that are spaced out at regular intervals over a certain number of years. For example, a five-year ladder might have 20% of the bonds mature each year. This strategy puts an investor's money to work systematically, without trying to predict rate changes.

With rates projected to continue rising, it might make sense to create a shorter bond ladder now and a longer ladder when rates appear to have stabilized. Keep in mind that these are only projections, based on current conditions, and may not come to pass. The actual direction of interest rates might change.

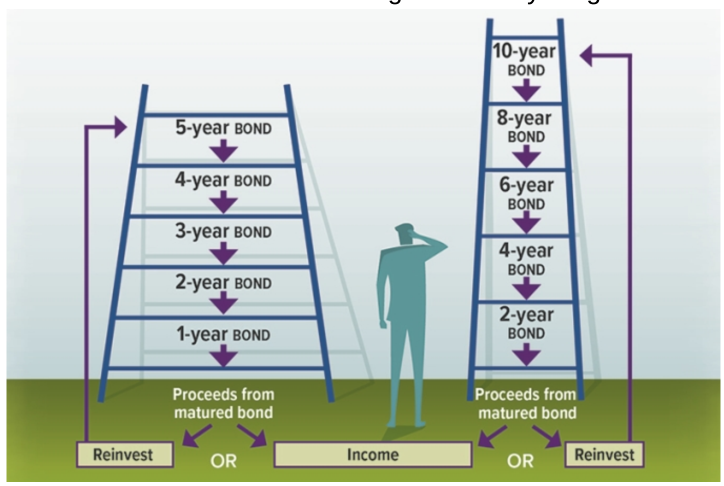
Reinvesting or Taking Withdrawals

When bonds from the lowest rung of the ladder mature, the funds are often reinvested at the long end of the ladder. When rates are rising, investors who reinvest the funds may be able to increase their cash flow by capturing higher yields on new issues. Or a ladder might be part of a withdrawal strategy in which the returned principal from maturing bonds is dedicated to retirement spending.

Bond ladders may vary in size and structure, and could include different types of bonds depending on an investor's time horizon, risk tolerance, goals, and personal preference. Owning a diversified mix of bond investments might also help cushion the effects of interest rate and credit risk in a portfolio. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Rung by Rung

Here are two sample structures for a bond ladder. When bonds mature, the proceeds can be used for income or reinvested in bonds to fill the longest maturity rung.



Individual Bonds vs. ETFs

Buying individual bonds provides certainty, because investors know exactly how much they will earn if they hold a bond to maturity, unless the issuer defaults. However, individual bonds are typically sold in minimum denominations of $1,000 to $5,000, so creating a bond ladder with a sufficient level of diversification might require a sizable investment.

A similar approach involves laddering bond exchange-traded funds (ETFs) that have defined maturity dates. These funds, typically called target maturity ETFs, generally hold many bonds that mature in the same year the ETF will liquidate and return assets to shareholders. Target maturity ETFs may enhance diversification and provide liquidity, but unlike individual bonds, the income payments and final distribution rate are not fully predictable. Bond ETFs are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds.

Exchange-traded 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) Federal Reserve, 2022

4 Health Insurance Options for Young Adults

Young adults have more access to health insurance coverage than ever before.[1] However, despite these gains, they also have some of the highest uninsured rates of any age group in the United States.[2] Having adequate health insurance is critical, even if you are young and healthy. Without it, getting hurt or sick could result in costly medical expenses that could lead to financial hardship. Here are four health insurance options to help you protect yourself.

Get on or stay on your parent's plan. If your parents have employer-sponsored health insurance or a Health Insurance Marketplace plan, you usually can be added to or remain on a parent's plan until you turn 26. Generally, you can stay on your parent's plan until you turn 26 even if you:

- Get married
- Have or adopt a child
- Start or leave school
- Live in or out of your parents' home
- Aren't claimed as a tax dependent
- Turn down an offer of job-based coverage

Enroll in your school's student health plan. Most U.S. colleges and universities require their students to have a certain level of health insurance coverage. If you are in college, you may be able to enroll in your school's student health plan if you don't already have health insurance or if your insurance plan does not meet the coverage requirements.

Apply for insurance through the Health Insurance Marketplace. Marketplace plans offer affordable coverage for essential health benefits and pre-existing conditions. In addition, when you fill out an online application for the Health Insurance Marketplace, you will find out if you qualify for a plan that offers income-based savings (if you are not a tax dependent) or if you are eligible for other free or low-cost coverage (e.g., Medicaid, CHIP).

Obtain coverage through your employer. If your employer offers health insurance coverage, consider enrolling in your company plan. If you just turned 26 and are outside of the open enrollment period, you may qualify for a special enrollment period. Employer-sponsored plans are typically more affordable than individual health plans because many employers pay a portion of the premiums.

For more information on health insurance coverage for young adults, visit [healthcare.gov.](healthcare.gov)

1) Urban Institute, 2021

2) American Community Survey, U.S. Census Bureau, 2020