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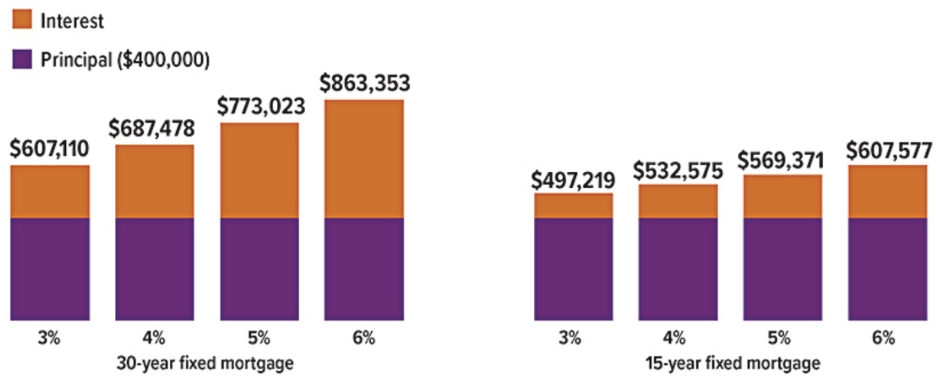
The 2021 tax season is over - finally! We're into the last quarter of the year, starting to think about the holiday season and make plans for 2023. COVID vaccines make it possible for us to gather together. Our clients - you! - are looking forward to vacations, college for your children or grandchildren, weddings and/or the possibility of stopping work in the future. Let us help you think through these important life changes and events, plan for your important life goals and answer your questions. We are here to support you as you plan for 2023.

The Cost of Borrowing

In April 2022, the average interest rate for a 30-year fixed mortgage surpassed 5% for the first time since April 2010, and it was still above 5% in August. With higher rates, it's more important than ever to understand how interest increases the total cost of a mortgage.

The chart below shows the total cost for a $400,000 conventional 30-year fixed mortgage and an accelerated 15-year fixed mortgage (typically used for refinancing) at different interest rates. A $400,000 mortgage would enable a buyer to purchase a $500,000 home with a 20% down payment.



Source: Freddie Mac, 2022. *This hypothetical example of mathematical principles is used for illustrative purposes only. Actual results will vary.*

Retirement Savings in a Volatile Market

If you worry about your retirement investments during market downturns, you're not alone. Unfortunately, emotions are often the enemy of sound investing. Here are some points to help you stay clear-headed during periods of market volatility.

Markets Rebound

Historically, even the worst bear market has bounced back and eventually gone on to reach new highs. In fact, since 1970, bear markets have lasted an average of 14 months.

A Chance to Buy Low

If you're investing a set amount of money on a regular basis, such as in a retirement plan account, you're buying fewer shares when prices are high and more shares when prices are low — one of the basic tenets of investing wisely.

Systematic investing involves making continuous investments on a regular basis, regardless of fluctuating share prices. Although this strategy does not ensure a profit or prevent a loss, you must be financially able to continue making purchases through extended periods of high and low price levels.

Retiree Strategies

The risk of experiencing poor investment returns just before or in the early years of retirement is a significant factor that can affect a nest egg's long-term sustainability. Fortunately, some strategies can help mitigate this risk.

For example, consider a tiered investment strategy, in which you divide your portfolio into tiers representing your short-, medium-, and long-term needs for income and growth.

The short-term tier(s) could contain the amount you need for about two to five years, invested in assets designed to preserve value. The medium-term tier(s) could hold investments that strive to provide income for perhaps three to 10 years, balanced with some growth potential. The longer-term tier(s) could hold higher-risk, higher-growth potential assets that you wouldn't need for at least 10 years. Generally, this tier is intended to feed the shorter-term tiers and fuel the strategy over the course of your retirement.

Another possible strategy is using a portion of your retirement savings to purchase an immediate annuity, which offers a predictable retirement income stream you could pair with Social Security and any other steady income sources to cover your fixed expenses.

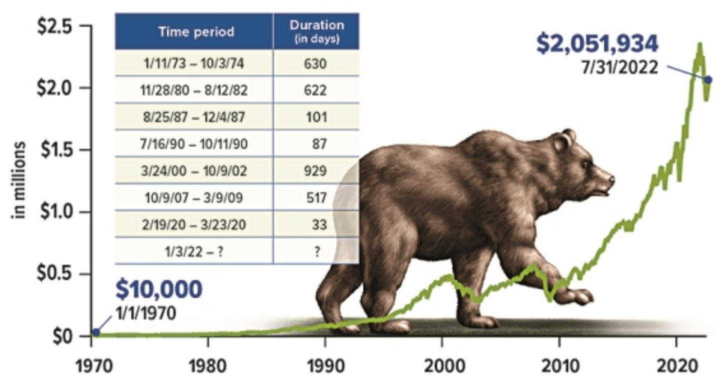
An immediate annuity is an insurance-based contract in which you pay the issuer a single lump sum in exchange for the issuer's guarantee of regular income payments for a fixed period or the rest of your life. With some exceptions, you typically receive fixed payments with little or no variation in the amount or timing. When purchasing an immediate annuity, you relinquish control over the amount you invest.

A Financial Professional Can Help

If volatile markets prompt you to question your retirement investing strategy, your financial professional can be an objective third party to help ease your worries and evaluate possible portfolio shifts.

Bear Markets Eventually End

A bear market is generally defined as a loss of at least 20% from a recent high. From 1970 to 2021, there were seven bear markets, the longest lasting less than three years. A new bear market began in January 2022. Despite these down periods, a hypothetical $10,000 investment in the S&P 500 in 1970 would have grown to more than $2 million by 2022.



Time period	Duration (in days)
1/11/73 – 10/3/74	630
11/28/80 – 8/12/82	622
8/25/87 – 12/4/87	101
7/16/90 – 10/11/90	87
3/24/00 – 10/9/02	929
10/9/07 – 3/9/09	517
2/19/20 – 3/23/20	33
1/3/22 – ?	?

Source: S&P Dow Jones Indices and Refinitiv, 2022, for the period 1/1/1970 to 7/31/2022. The S&P 500 is an unmanaged index that is considered to be representative of the U.S. stock market. The performance of an unmanaged index is not indicative of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher returns also involve a higher degree of risk. There is no assurance that working with a financial professional will improve investment results.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Withdrawals of annuity earnings are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% penalty. Any annuity guarantees are contingent on the financial strength and claimspaying ability of the issuing insurance company.

How Much Life Insurance Do You Need?

Throughout your life, your financial needs will change and life insurance can help you meet some of those needs. But how much life insurance do you need? There are a number of approaches to help determine how much life insurance you should have. Here are three of those methods.

Family Needs Approach

With this approach, you divide your family's financial needs into three main categories:

- Immediate needs at death, such as cash needed for estate taxes and settlement costs, credit-card and other debts including a mortgage (unless you choose to include mortgage payments as part of ongoing family expenses), and an emergency fund for unexpected costs
- Ongoing income needs for expenses such as food, clothing, shelter, and transportation, which will vary in amount and duration, depending on a number of factors, such as your spouse's age, your children's ages, your surviving spouse's income, your debt, and whether you'll provide funds for your surviving spouse's retirement
- Special funding needs, such as college, charitable bequests, funding a buy/sell agreement, or business succession planning

Once you determine the total amount of your family's financial needs, subtract that total from the available assets your family could use to help defray some or all of these expenses. The difference, if any, represents an amount that the life insurance proceeds, and the income from future investment of those proceeds, might cover.

Income Replacement Calculation

This method is based on the premise that family income earners should buy enough life insurance to replace the loss of income due to an untimely death. Under this approach, the amount of life insurance you should consider is based on the value of the income that you can expect to earn during your lifetime, taking into account such factors as inflation and anticipated salary increases, as well as the interest that the lump-sum life insurance proceeds may generate.

Estate Preservation and Liquidity Needs Approach

This method attempts to calculate the amount of life insurance needed to settle your estate. Settlement costs may include estate taxes and funeral, legal, and accounting expenses. The goal is to preserve the value of your estate at the level prior to your death and to avoid an unwanted sale of assets to pay for any of these estate settlement expenses. This approach takes into consideration the amount of life insurance you may want in order to maintain the current value of your estate for your family, while providing the cash needed to cover death expenses and taxes.

Unfortunately, many people underestimate their life insurance needs. Often, the purchase of life insurance is based solely on its cost instead of the benefit it might provide. By the same token, it's possible to have more life insurance than you need. September is Life Insurance Awareness Month, a good time to review your life insurance to help ensure that it matches your current and projected needs.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Optional benefits are available for an additional cost and are subject to contractual terms, conditions, and limitations.

Interest in Life Insurance Stays Strong

Source: 2022 Insurance Barometer Study, Life Happens and LIMRA

FAFSA Opens on October 1

The Free Application for Federal Student Aid (FAFSA) for the 2023-2024 school year opens on October 1, 2022. Here are some things you should know.

Why file it? The FAFSA is a prerequisite for federal student loans, grants, and work-study. In addition, colleges typically require the FAFSA before distributing their own need-based aid and, in some cases, merit-based aid. The few hours it might take to complete the form may be time well spent in order for students to be eligible for these aid opportunities.

How do I file it? The best way to submit the FAFSA is online at studentaid.gov. If you haven't filed the FAFSA before, both you and your child need to create an FSA ID (you can use the same FSA ID for all years of college). Students must file the FAFSA each year, though returning college students can file a renewal FAFSA, which should take less time.

How does the FAFSA calculate financial need? Financial need is determined by looking at a family's income, assets, and household information. In general, here's how the calculation works: (1) parent income is counted up to 47% (income equals adjusted gross income plus untaxed income/benefits minus certain deductions); (2) student income is counted at 50% over a certain amount; (3) parent assets are counted at 5.6% (home equity, retirement assets, cash value life insurance, and annuities are excluded); and (4) student assets are counted at 20%.[1]

In this calculation, a family's income is the most important factor. But the FAFSA doesn't consider your *current* income. Instead, it considers your income from two years prior, which it gets from your tax return. For example, the FAFSA for the 2023-2024 year will rely on income information from your 2021 tax return. For your assets, the FAFSA wants the current value of your assets as of the day you fill out the form.

What happens after I submit the FAFSA? The FAFSA calculates your expected family contribution, or EFC. The cost of a particular college minus your EFC equals your child's demonstrated financial need. Colleges will use your EFC to craft an aid package that attempts to meet your child's financial need (they are not obligated to meet all of it).

Changes are coming. More changes are coming to the 2024-2025 FAFSA, a year later than originally planned. Key modifications include (1) a change in terminology from "expected family contribution" or EFC to "student aid index" or SAI; (2) parents with multiple children in college at the same time will no longer receive a discount in the form of a reduced EFC; (3) income protection allowances for both parents and students will be increased; and (4) cash support to students and other types of income will no longer have to be reported on the FAFSA, including funds from a grandparent-owned 529 plan.

1) U.S. Department of Education, 2022

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