Breed's Hill Newsletter

Planning Your Financial Future

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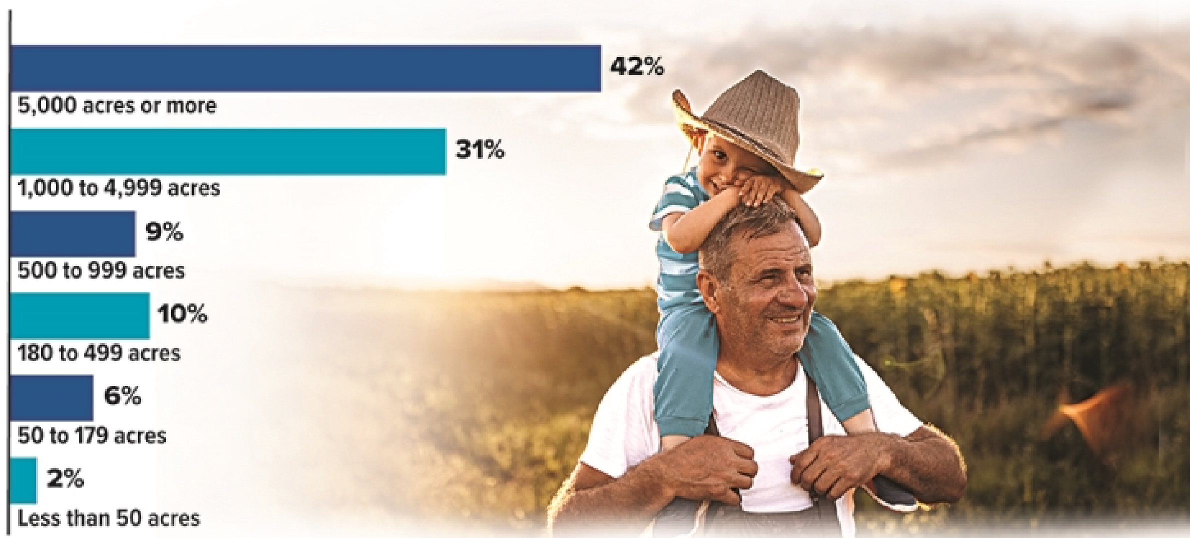
Vanishing Family Farms

According to the latest Census of Agriculture, the number of U.S. farms declined 6.9% in the five years between 2017 and 2022, while the average farm size increased 5.0%. This trend continues a decades-long period of consolidation in U.S. agriculture.

Smaller, independent farms, including those owned and operated by families, often struggle to compete with larger, corporate-owned operations. And the agricultural giants have plenty of resources to buy up small farms that throw in the towel. In 2022, the largest 2% of U.S. farms (5,000 or more acres) controlled 42% of the nation's farmland, up from 35% in 2002.



Source: U.S. Department of Agriculture, 2024

Do You Have Enough Life Insurance?

Your life insurance needs change as your life changes. When you are young, you may not have a need for life insurance. However, as you take on more responsibility and your family grows, your life insurance needs increase but then decrease after your children are grown.

You should periodically review your life insurance coverage to ensure that it adequately reflects your life situation. Here are several methods to consider in determining your life insurance needs.

Income rule

The most basic rule of thumb is the income rule, which states that your insurance need would be equal to six or eight times your gross annual income. For example, a person earning a gross annual income of $60,000 should have between $360,000 (6 x $60,000) and $480,000 (8 x $60,000) in life insurance coverage.

Income plus expenses

This rule considers your insurance need to be equal to five times your gross annual income plus the total of any mortgage, personal debt, final expenses, and special funding needs (e.g., college). For example, assume that your gross annual income is $60,000 and your total expenses are $160,000. Your insurance need would be equal to $460,000 ($60,000 x 5 + $160,000).

Income replacement calculation

The income replacement calculation is based on the theory that the 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 purchasing 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 will generate.

Family needs

With the family needs approach, you would purchase enough life insurance to allow your family to meet its various expenses in the event of your death. Under the family needs approach, you divide your family's needs into three main categories:

- Immediate needs at death (cash needed for funeral and other expenses)
- Ongoing needs (income needed to maintain your family's lifestyle)
- Special funding needs (college funding, bequests to charity and children, etc.)

Once you determine the total amount of your family's needs, you should consider purchasing enough life insurance to cover that amount, taking into consideration the interest that the life insurance proceeds could earn over time.

Choosing the Most Appropriate Policy

Here are some factors to consider when choosing a life insurance policy.

1. How much coverage do you need?
2. How long will you need the coverage?
3. How much coverage can you afford?
4. What policy riders or features might you need?
5. What is the financial strength and rating of the insurance company you're considering?

Estate preservation and liquidity needs

This approach attempts to calculate the amount of life insurance needed upon your death to settle your estate. This method takes into consideration the amount of life insurance required to maintain the current value of your estate for your family, while potentially providing the cash needed to cover death expenses and taxes. Using this method, you should consider purchasing enough life insurance to cover potential estate taxes, along with funeral, accounting, and legal expenses associated with the administration of your estate. The life insurance may allow you to preserve the value of your estate at the level prior to your death and to help prevent an unwanted sale of assets to pay estate taxes and related expenses.

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

A Critical Combo: Life Insurance with Long-Term Care Benefits

An important part of any retirement strategy involves accounting for potential long-term care (LTC) expenses, which can be surprisingly high. The median cost of a private room in a nursing home was $9,733 in 2023, while a full-time home health aide was $6,292 per month.[1]

If you plan to pay for care out of pocket, consider how long your retirement savings would last if you or your spouse end up needing care in a nursing home for several years. How would writing those checks every month affect the healthy spouse's quality of life?

On the other hand, you may not like the idea of paying costly premiums for traditional long-term care insurance that you might never need. If so, you may be interested in one of these alternatives that combine permanent life insurance with long-term care coverage.

An efficient hybrid

Although LTC insurance is typically a "use-it-or-lose-it" proposition, a hybrid (or linked-benefit) policy can help pay for care if it's needed or provide a larger death benefit for your beneficiaries if it's not. Hybrid policies are generally more expensive than standalone LTC policies, and the maximum LTC benefit may be smaller. Currently, the max LTC benefit amount is typically equal to about five times the premium.[2]

A hybrid policy may be purchased with a single premium, or installments paid over a few years (usually no more than 10). And you won't have to worry about future rate increases or the issuer canceling the policy, which can happen with a traditional LTC policy.

Tack on a rider

Another option is to buy a life policy with an attached long-term care rider — which typically can't be added later. Any LTC payments are usually limited to the death benefit, which means they are generally not as robust as with a standalone LTC policy or a linked-benefit policy. However, the death benefit is larger (for the same premium).

If you consider either of these strategies, you should have a need for life insurance and evaluate the policy on its merits as life insurance.

Collecting benefits

Long-term care benefits kick in when the insured person needs help with two or more activities of daily living (such as eating, bathing, and transferring) or is severely cognitively impaired, though there is typically a 90-day waiting, or elimination, period. Care may be provided in your home or at a facility.

Probability of needing care, by attained age (for someone who is currently age 65)

Age	Female	Male
70	5.6%	5.3%
75	13.9%	12.7%
80	27.2%	24.3%
85	43.9%	38.7%
90	58.3%	51.1%

Source: American Association for Long-Term Care Insurance, 2022

With linked-benefit policies and LTC riders, benefits may be paid through reimbursement of the actual cost of care or an indemnity model that pays a certain cash benefit regardless of the actual cost of care. If your policy uses an indemnity model, it might allow you to pay a family caregiver. When you use the LTC benefit, the death benefit is reduced, but some policies may still offer a small death benefit even if you use up the LTC coverage.

Plus, permanent life policies and most hybrid life-LTC policies have a cash-value component that you could tap into for emergencies or retirement income if you are lucky enough to need little or no care. (Loans and withdrawals will reduce the policy's cash value and death benefit.)

The danger in waiting to explore combination life-LTC policies — beyond the fact that premiums rise with age — is that you could develop a health condition that would disqualify you from coverage.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Policies commonly have mortality and expense charges. If a policy is surrendered prematurely, there may be surrender charges and income tax implications. Optional benefit riders are available for an additional cost and are subject to the contractual terms, conditions, and limitations outlined in the policy; they may not, however, benefit all individuals. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

1) Genworth Cost of Care Survey, December 2023

2) American Association for Long-Term Care Insurance, 2024 (estimate is for benefits at age 90 for policies with inflation growth option)

Two Tax-Friendly Retirement Plans for the Self-Employed

As a business owner, you may devote most of your time, energy, and profits to running and growing your business. But working for yourself means that saving money for retirement is entirely up to you.

This is not the only reason it may be worthwhile to divert a sizable portion of your earnings to one of these tax-deferred retirement accounts. Doing so could significantly reduce your taxable income.

Solo 401(k)

A solo 401(k) is a one-participant plan for business owners who have no employees (other than a spouse). As the employee, you can contribute as much as 100% of your annual compensation on a pre-tax basis, up to the $23,000 annual maximum in 2024 ($30,500 if you are age 50 or older). As the employer, you can also contribute an additional 20% of your earnings (25% if the business is incorporated) and deduct it as a business expense. Total contributions are capped at $69,000 in 2024 ($76,500 if age 50 or older).

A solo 401(k) plan may also allow plan loans and/or hardship withdrawals.

The deadline to establish a solo 401(k) and formally elect salary deferrals is December 31 of the year in which you want to receive the tax deduction (or before fiscal year-end for corporations). For businesses taxed as sole proprietors and partnerships, salary deferrals and profit-sharing contributions for 2024 must be deposited into the account by the April 15, 2025, tax filing deadline* (October 15 if an extension is filed).

SEP IRA

If you are self-employed, you can contribute 20% of net earnings, up to $69,000 in 2024, to a Simplified Employee Pension (SEP) plan. A SEP IRA may also be an appropriate choice for business owners with a small number of employees for whom they would like to provide retirement benefits. All employees age 21 and older who have worked for the employer for at least three of the last five years must be included. The plan may exclude employees earning less than $750 in the current year.

The same percentage of salary (up to 25% of compensation or $69,000) must be contributed to each eligible employee's SEP IRA, including the owner's. However, the business is not required to contribute every year. You have until the due date of your business's federal income tax return (including extensions) to set up a SEP IRA and make contributions.

Distributions from 401(k) plans and SEP IRAs are taxed as ordinary income. Early withdrawals (prior to age 59½) may be subject to a 10% federal income tax penalty.

*In Maine and Massachusetts, the tax filing deadline is April 17, 2025, due to state holidays.

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