Your Retirement Independence

Smart Strategies, Real Solutions

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We believe comprehensive planning is the best way to provide advice to our clients. Our advisors specialize in Retirement Income Planning & Investment Advice for all planning stages - growth of assets, protecting and growing retirement income, and creating income streams from lump sum 401(k)/IRA accounts.

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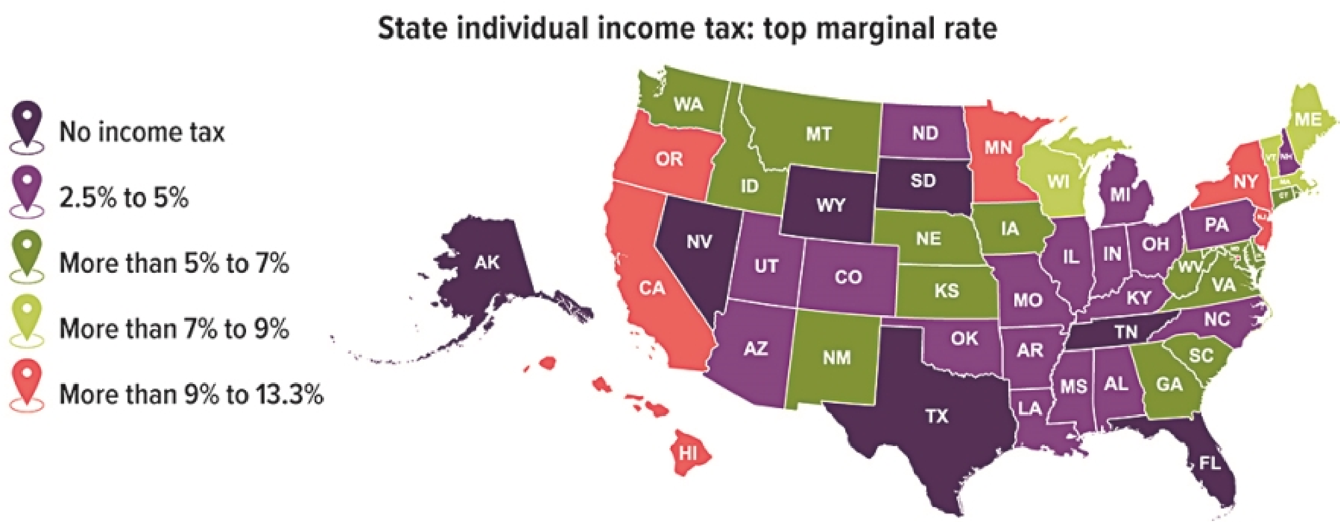
Thank you for your interest in our services and enjoy this edition of "Your Retirement Independence" and the "Weekly Market Update" linked here.

State Income Tax Across the Map

Seven states have no state income tax. Of the 43 states with a state income tax (and the District of Columbia), the top marginal income tax rate ranges from 2.5% to 13.3%. Most states (and D.C.) with an income tax have multiple tax brackets with graduated rates; 14 states have only a single tax rate. New Hampshire only taxes interest and dividends, and Washington only taxes capital gains.



Source: Tax Foundation, February 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.

Cancer Happens: Insurance Can Help Fortify Your Finances

Cancer diagnosis rates are on the rise, especially for younger people under age 55. Meanwhile, U.S. death rates from cancer fell by 33% between 1991 and 2021, largely due to early detection, effective treatments, and declines in smoking.[1]

Although it's scary to consider the possibility of a cancer diagnosis, it might be helpful to prepare for the financial implications. Even with health insurance, today's advanced cancer treatments can be very costly. And for self-employed individuals or workers who don't have paid sick leave, taking time off for medical appointments or because they are not feeling well could make it difficult to cover their living expenses.

The Affordable Care Act made it illegal for insurers to deny coverage due to a pre-existing condition such as cancer, so losing access to health insurance is no longer the major concern that it used to be. However, some other types of insurance tend to be much more expensive and might even be impossible for a cancer survivor to obtain. Having at least one of the following policies in place *before* you are diagnosed could help stabilize your finances — so that you and your family have one less thing to worry about as you fight cancer.

Disability income insurance

Disability benefits could replace a percentage of your lost income if you are unable to work during cancer treatment or recovery (up to policy limits). If your employer pays for disability income insurance, it's probably a short-term policy and may provide benefits for just three to 12 months.

A long-term disability income insurance policy provides extended coverage that may last for as long as cancer substantially impairs your ability to work (up to retirement age). Private disability income insurance usually offers more comprehensive benefits than Social Security or state disability programs. Individually owned disability income insurance policies may offer the most coverage (at a greater cost), followed by group policies obtained through an employer or association.

Critical illness insurance

Critical illness insurance will pay you a lump sum if you become ill from — and then survive — certain illnesses or injuries, including life-threatening cancer. You can use the tax-free lump sum for whatever you want, whether it's related to your illness or not.

It's vital that you understand exactly what is covered (or not covered), which will be outlined in the policy. For example, what does the insurance company consider to be a life-threatening cancer? If you have a family history of a certain type of cancer, will the policy exclude that illness? Are there pre-existing condition limitations? Does the monthly premium increase as you get older? Finally, be aware that if you own one of these policies and never get sick, you won't get any money back.

Permanent life insurance

If your life insurance policy has a critical illness rider, you may be eligible to receive some or all of the death benefit when you are diagnosed with an illness specified in the policy, which commonly includes cancer. You can use the tax-free proceeds however you wish, and any remaining death benefit will go to your beneficiaries.

Otherwise, you can typically borrow from any permanent life insurance policy that has accumulated a cash value. If you can't repay the loan in full before your death, the balance will be subtracted from the proceeds that are payable to your beneficiaries.

Screenings Save Lives

The ages to begin screening for breast and colorectal cancers have been lowered in recent years. These guidelines are for people at average risk. Individuals with a family history of cancer or other known risk factors may be advised to undergo more thorough screenings and/or genetic testing.

Type of cancer	Screening	When to begin	Frequency
Breast (women)	Mammogram	Age 40	Every other year
Colorectal (men & women)	Colonoscopy	Age 45	Every 10 years
Cervical (women)	Pap test	Age 21	Every three years
Lung (men & women)	Low-dose CT scans	Age 50	Annually (for long-term smokers)*

*A 20-year history of smoking one pack of cigarettes daily, including those who have quit in the last 15 years

Source: U.S. Preventive Services Task Force, 2024

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. Optional benefit riders are available for an additional fee and are subject to contractual terms, conditions, and limitations as outlined in the policy. Any guarantees are contingent on the financial strength and claims-paying ability of the insurance company.

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the disability income insurance policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.

1) American Cancer Society, 2024

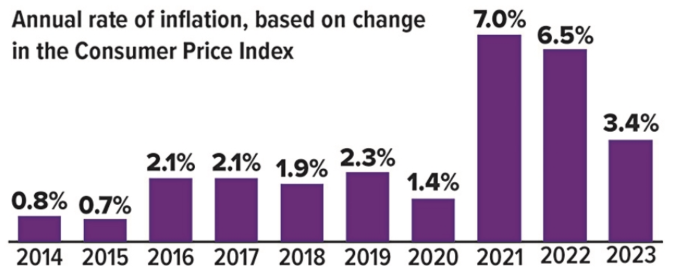
What's Your Real Return?

As an investor, you probably track the return on your investments. But it's likely that you look at the *nominal return,* which is the percentage increase or decrease in the value of an investment over a given period of time, usually expressed as an annual return. To estimate actual income or growth potential in order to target financial goals, such as a certain level of retirement income, it's important to consider the *real return,* which includes the effects of taxes and inflation.

Let's say you want to purchase a bank-issued certificate of deposit (CD), because you like the lower risk and fixed interest rate that a CD can offer. CD rates have risen substantially with the Federal Reserve's aggressive increases in the federal funds rate, so let's say you find a CD that offers 5% annual interest. That could be attractive. However, if you're taxed at the 22% federal income tax rate, 1.1% will be gobbled up by federal income tax on the interest.

That still leaves an interest rate of 3.9%, but you should consider the purchasing power of the interest. For example, inflation slowed to 3.4% in 2023 after hitting 40-year highs in 2021 and 2022 (see chart). But a 3.4% inflation rate would leave a real return of just 0.5%. If inflation slows further, the real return on this hypothetical CD would increase. However, if the Fed were to lower the benchmark federal funds rate in response, rates on CDs and other fixed-income investments might decline, reducing the real return on future CD and fixed-income purchases.

Eroding Purchasing Power



Source: U.S. Bureau of Labor Statistics, 2024

This hypothetical example doesn't represent the performance of any specific investment, but it illustrates the importance of understanding what you're actually earning after taxes and inflation. In some cases, the lower risk offered by an investment may be appealing enough that you're willing to accept a low real return. However, pursuing long-term goals such as retirement generally requires having some investments with the potential for higher returns, even if they carry a higher degree of risk.

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. All investments are subject to risk, including the possible loss of principal. When sold, investments may be worth more or less than the original cost.

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