

Bartholomew & Company Monthly

Providing Trusted Financial Advice Since 1994



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5.12 million

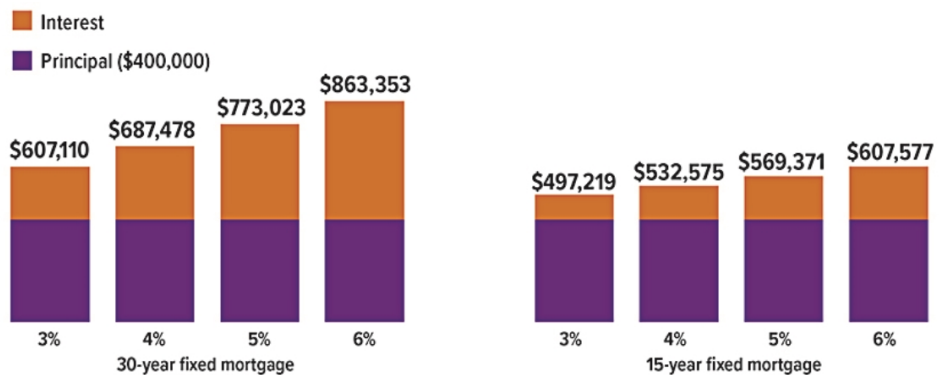
Existing home sales in June 2022, down 14.2% from June 2021. Rising mortgage rates and general inflation have cut into purchasing power for homebuyers, while the national median existing-home price reached a record \$416,000, up 13.4% from one year ago. A recent increase in homes on the market may help to ease prices, but that remains to be seen.

Source: National Association of Realtors, 2022

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.*

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



68%
of life insurance owners report
feeling financially secure



44%
say they'd face financial hardship
within 6 months if a primary
wage earner died



41%
say they need life insurance —
or more of it



31%
of people say COVID-19 has made
it more likely they'll purchase life
insurance within the next 12 months

Source: 2022 Insurance Barometer Study, Life Happens and LIMRA

How Life Insurance Could Help Mitigate Taxes in Retirement

Higher taxes could follow in the wake of soaring government spending on pandemic relief measures — a likelihood that shines a new light on the tax advantages of life insurance. Permanent life insurance offers a tax-free death benefit, and a portion of each premium goes into a cash-value account that accumulates on a tax-deferred basis. The policy owner may also access the cash value, if needed, without triggering income taxes.

Assets in tax-deferred retirement accounts will eventually be taxed as ordinary income — whether distributions are taken by the current owner or a beneficiary who inherits the account — so taxpayers with well-funded retirement accounts should bear in mind that today's historically low income tax rates are scheduled to expire after 2025.

Taking IRA distributions while taxes are low and shifting the money to life insurance could provide a hedge against future tax increases. Here are three ways in which permanent life insurance can be used to fund retirement and estate strategies.

Supplement Retirement Income

The cash value is available for emergencies as well as for normal retirement expenses such as housing costs and health care. You can generally make tax-free withdrawals (up to the amount paid in premiums) or use loans to tap into the accumulated cash value. Although policy loans accrue interest, they are free of income tax (as long as they are repaid) and usually do not impose a set schedule for repayment.

Still, you should generally have a need for life insurance protection and evaluate a policy based on its merits as such. Loans from a life insurance policy will reduce the policy's cash value and death benefit, could increase the chance that the policy will lapse, and might result in a tax liability if the policy terminates before the death of the insured. Additional out-of-pocket payments may be needed if actual dividends or investment returns decrease, if you withdraw policy cash values, or if current charges increase.

Help Pay for Long-Term Care

Many retirees worry that their savings could be depleted later in life by the escalating cost of long-term care. A long-term care rider attached to a life insurance policy could help pay for these expenses if they are ever needed. Any payouts for covered expenses would reduce (and are usually limited to)

the death benefit, and they are typically much less generous than those of a traditional "use-it-or-lose-it" long-term care policy. 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.

Budgeting for Long-Term Care

Medicare pays for up to 100 days in a skilled nursing facility after a qualifying hospital stay of three or more days, and provides limited coverage for home health care. Medicaid pays for some long-term care services, but eligibility is based on the person's income and assets, and often requires "spending down" to qualify.

National monthly costs, 2021



*Based on 44 hours per week

Source: Genworth Cost of Care Survey, 2022

Leave a Tax-Free Legacy

Most nonspouse beneficiaries who inherit IRAs must now empty the account within 10 years, and heirs who are forced to take distributions in their peak earning years could face large income tax bills. By contrast, the death benefit from a life insurance policy could provide a tax-free inheritance.

Before implementing a strategy involving life insurance, it would be prudent to make sure you are insurable. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. In addition to the life insurance premiums, other costs include mortality and expense charges. If a policy is surrendered prematurely, there may be surrender charges and income tax implications. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Building Financial Resilience

Inflation, roller-coaster markets, global events, and life circumstances can test anyone's fortitude. You may not feel ready to handle these pressure-filled times and might worry about the potential effects on your financial well-being. Fortunately, you can take steps to build the resilience you need to help handle the turbulence and hopefully emerge even stronger.

Focus on the Foundation

Developing a new budget or reviewing an existing one may help reduce stress by reminding you that you still have control over many aspects of your personal finances. A budget outlines your income and expenses and shows how much money is coming in compared to how much money is going out. If you find that you are spending more than you realized, you can make adjustments.

An important companion to a budget is an emergency fund. When an unexpected expense comes up, you can use your emergency reserves to cover it, instead of dipping into long-term savings or racking up costly credit-card debt that could throw your budget off track at a time you can least afford it. Consider starting an emergency fund and build it up over time.

Stress-Test Your Portfolio

When you're investing for retirement or another financial goal, assessing the potential impact of various scenarios may help you prepare for unexpected events. This may be done using computer

simulations to analyze how your portfolio might perform. Doing this at regular intervals may help take some of the emotion out of decision-making during stressful times, helping you address gaps and opportunities.

There is no assurance that a simulation will be accurate. Because of the many variables involved, you should not rely on simulations without realizing their limitations. All investing involves risk, and there is no assurance that any financial strategy will be successful.

It's better to look ahead and prepare, than to look back and regret.

Jackie Joyner-Kersey

Source: BrainyQuote.com

Prepare for the Future

Of course, you're never going to be prepared for every financial scenario. But developing a written financial strategy and reviewing it periodically may help you thoughtfully navigate life's twists and turns. It documents and organizes the pieces of your financial picture, helping you stay focused on the future as you weather the current storms.

Building financial resilience is an ongoing process, and it's never too late to start. Becoming better positioned for downturns can help you feel more confident that you can handle whatever challenges come your way.

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