smartlife™

MONTHLY NEWSLETTER

CORBETT ROAD
WEALTH MANAGEMENT

September 2022

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

WHAT'S INSIDE

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...
— page 02

Consumers Turn to Credit Cards as Inflation Pressures Finances
After declining during the pandemic, data shows consumer credit usage...
— page 02

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...
— page 03

Pooled Income Fund: A Charitable Gift That Provides Income to You
A pooled income fund is a trust with both charitable and noncharitable ...
— page 05

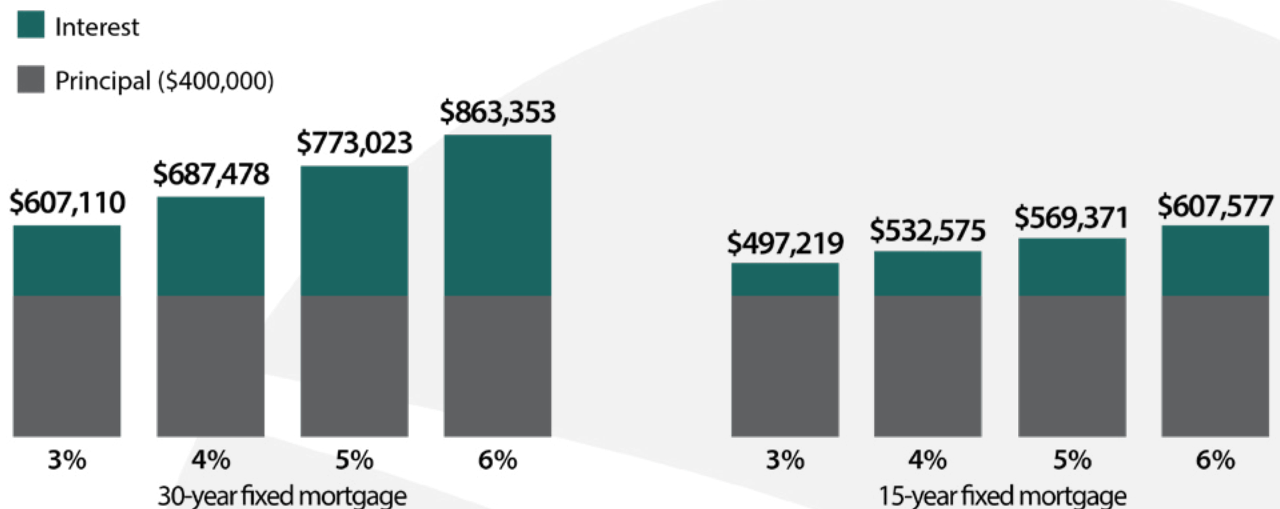
Building Financial Resilience
Inflation, roller-coaster markets, global events, and life circumstances can test anyone's fortitude. You may not feel ready to handle these pressure...
— page 07

4 Health Insurance Options for Young Adults
Young adults have more access to health insurance coverage than ever before. However, despite these gains, they also have some of the highest...
— page 08

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.*

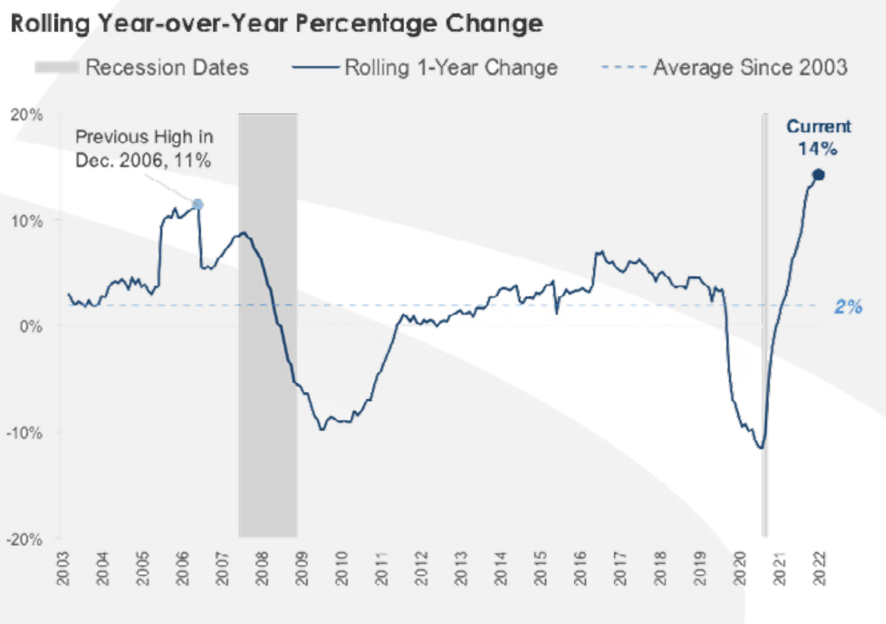
CONSUMERS TURN TO CREDIT CARDS AS INFLATION PRESSURE FINANCES

The chart below illustrates the year-over-year percentage growth of revolving credit. Revolving credit, such as a credit card, allows the account holder to borrow money repeatedly up to a set credit limit while making monthly payments. The charts show credit usage initially decreased during the pandemic as consumers used government stimulus checks and savings from fewer discretionary purchases to pay down debt.

After declining during the pandemic, data shows consumer credit usage is rising again and now back above pre-pandemic levels. The increase in credit usage started during 2021 as the effect of stimulus checks faded and the economic reopening released a wave of pent-up demand. Credit usage continues to increase during 2022 as inflation increases the price of everyday necessities, such as gas, groceries, and housing.

The increase in consumer credit usage raises an important point. Credit cards are an easy and common way to borrow money, but they are also one of the most expensive forms of borrowing. Most credit cards charge a variable interest rate tied to the prime rate, which is linked to the federal funds rate. This year's interest rate increases by the Federal Reserve are intended to ease inflation pressures, but they also make carrying a credit card balance more expensive. An increase in the federal funds rate increases the prime rate, which in turn increases the interest rate charged on credit cards. According to a recent survey by Bankrate.com, the average credit card interest rate reached 17.96% at the end of August, which marks the highest level since 1996.

The increase in mortgage and auto loan rates is getting all the attention this year, but the increase in credit card interest rates is more impactful to everyday life. Credit cards are a valuable tool to manage your personal finances, such as building up a credit score, increasing your purchasing power, and earning rewards. However, credit cards can also create negative issues, such as overspending, high balances, and high interest expenses, when misused and mismanaged. Now is an important time to review your financial plan and make sure you're sticking to it.



Source: *Consumers Turn to Credit Cards as Inflation Pressures Finances — information and chart sourced by MarketDesk (Chart of the Month — September 2022).*

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

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

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

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

POOLED INCOME FUND:
A CHARITABLE GIFT THAT PROVIDES INCOME TO YOU

A pooled income fund is a trust with both charitable and noncharitable beneficiaries. It is established and run by a public charity, not by you. The charity "pools" the irrevocable contributions of many people, invests the money, and then distributes to you (or your designated beneficiary) a periodic income payment (usually quarterly or annually) for life, prorated to match your contribution to the fund. When you die or your designated beneficiary dies, your remaining share in the fund passes to the charity.

Charitable Deduction

If you itemize deductions, you receive an immediate federal income tax charitable deduction for the present value of the remainder interest that will pass to charity. Your deduction is limited to 50% or 30% of your adjusted gross income (AGI), depending on the type of property contributed. Amounts disallowed because of the AGI limitations can be carried over for up to five years, subject to the AGI limitations in the carryover years. The transfer of the remainder interest to charity would also qualify for the federal gift tax or estate tax charitable deduction.

The amount of the income tax deduction is generally based on the fair market value of the property contributed to the pooled income fund, the beneficiary or beneficiaries' age(s), and the fund's highest rate of return in the last three taxable years.

Noncharitable Income Interest

Trust payments can last for the life or lives of one or more noncharitable beneficiaries. For example, you could name yourself, yourself and your spouse, or even someone else as the noncharitable beneficiary.

If you retain a noncharitable interest, the pooled income fund interest will be included in your gross estate for federal estate tax purposes. If your spouse receives the noncharitable interest as your survivor, that interest should qualify for the estate tax marital deduction (and the balance should qualify for the estate tax charitable deduction).

If you transfer a noncharitable interest to someone else while you are alive, you may have made a gift or generation-skipping transfer (GST) to that person of the income interest. (A GST is a transfer to a person two or more generations younger than you.) A portion of the gift may qualify for the annual gift tax exclusion, but not for the GST tax annual exclusion. A transfer to your spouse would generally qualify for the gift tax marital deduction. You may also have a federal gift and estate tax applicable exclusion amount or a GST tax exemption to shelter any transfer from tax.

Donors generally have limited choices in investment strategy. The amount of income received by the noncharitable beneficiary is not guaranteed; it may increase or decrease depending on the performance of the fund. If the investments in the fund perform poorly and the actual income earned by the fund declines, the charity is prohibited from invading the principal to increase the payment to the noncharitable beneficiary.

Income distributed to the noncharitable beneficiary is usually taxable at ordinary income tax rates. It may also be subject to the 3.8% net investment income tax.

How a Pooled Income Fund (PIF) Works

1. You donate to PIF (charitable tax deduction)
2. Charity pools donations and invests them
3. PIF pays share of fund's income annually to beneficiary
4. Charity keeps what's left after beneficiary dies

Other Considerations

One of the biggest advantages of choosing a pooled income fund over a charitable remainder unitrust or charitable remainder annuity trust is that you avoid the hassle and cost of establishing your own trust. Another advantage is that if the property you are donating to charity is relatively small, a pooled income fund makes the most of your assets by commingling them with the property of others. The fund can then use the increased assets to diversify among investments, thus helping reduce your investment risk. Also, the large size of the fund (compared to your own charitable trust) may translate into lower operating costs and more experienced management. By contrast, it may not be economically feasible for you to establish a charitable trust with a small investment. Even if you do, it may be impossible for the trustee to spread this money over a variety of investments. (Diversification does not guarantee a profit or protect against investment loss.)

In general, you can donate any type of property to a pooled income fund that the charity is willing to accept. A noncash donation will generally cause the 30% AGI limitation to apply to your charitable deduction. A fund cannot accept or hold tax-exempt securities.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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-Kersee
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.

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.

1) Urban Institute, 2021

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

IMPORTANT DISCLOSURES

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