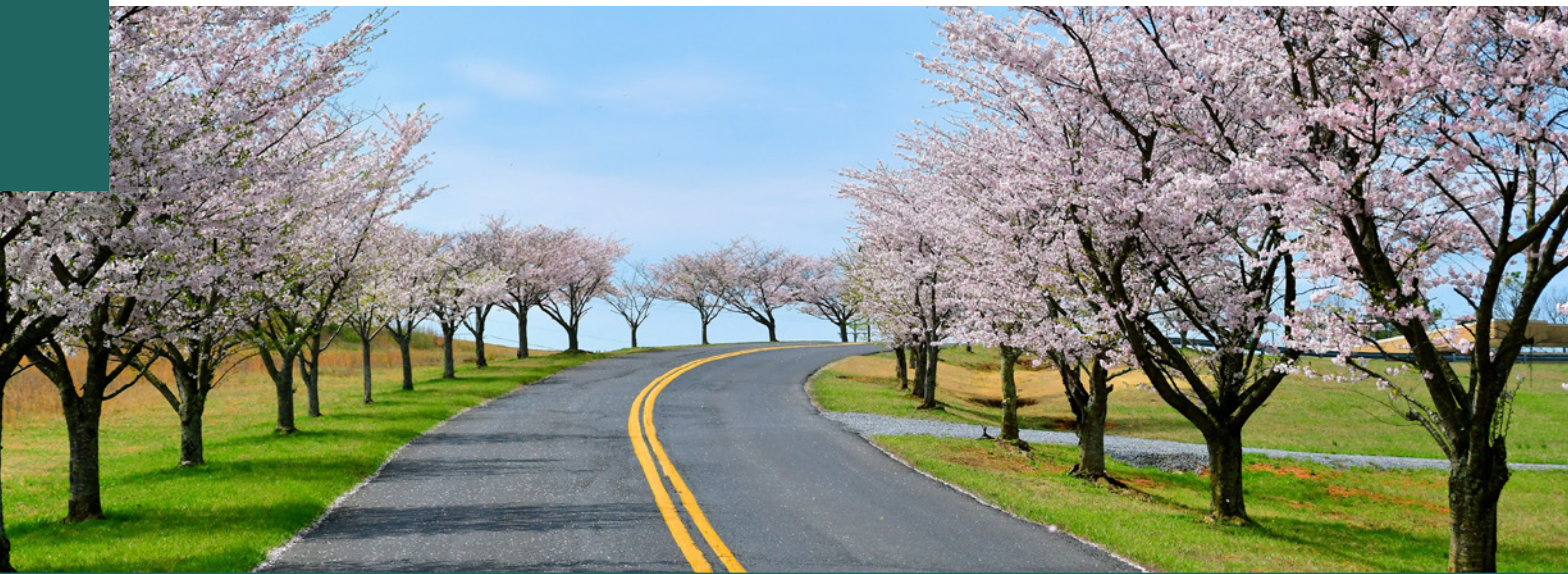
smartlife™

MONTHLY NEWSLETTER

CORBETT ROAD
WEALTH MANAGEMENT

April 2024



WHAT'S INSIDE

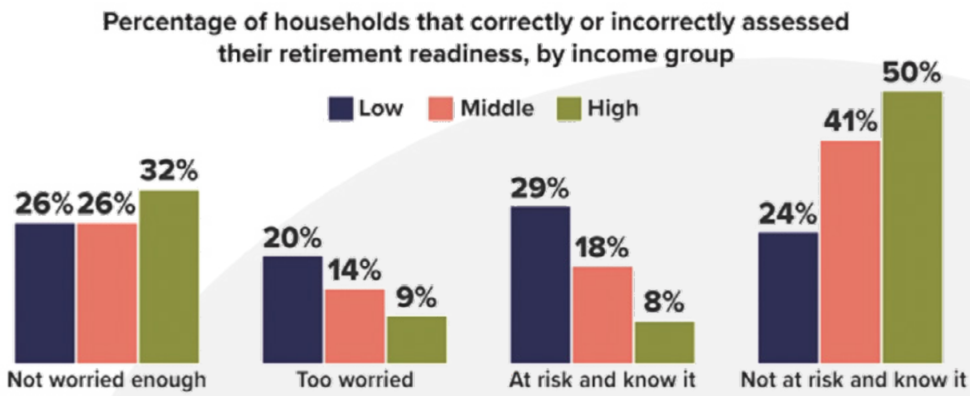
51%

Percentage of workers or their spouses who have tried to calculate how much they need to save in order to live comfortably in retirement. This was the highest percentage in a survey that first asked the question in 1993.

Source: *Employee Benefit Research Institute, 2023*

DO YOU KNOW IF YOUR RETIREMENT IS AT RISK?

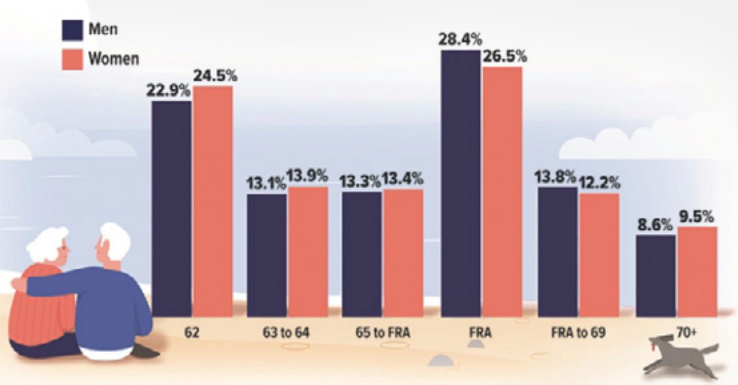
An analysis of data from the Federal Reserve Survey of Consumer Finances found that 47% of U.S. households were at risk of not having adequate retirement income, but only 19% were aware of their risk. On the other hand, 53% were not at risk, but only 38% knew it. This means that more than four out of 10 households were either too worried about their retirement readiness or not worried enough. It may be surprising that lower-income households were more likely to be too worried, while higher-income households were more likely to be not worried enough.



Source: *Center for Retirement at Boston College, 2023*

WHEN DO PEOPLE START COLLECTING SOCIAL SECURITY?

There's no "right" age to begin receiving Social Security retirement benefits. It's a personal decision based on multiple factors, including how long someone wants to work and how much retirement income is needed. Workers are entitled to full benefits at their full retirement age (FRA) — 66 to 67, depending on year of birth. Claiming before FRA (as early as age 62) will result in a permanently reduced benefit, while claiming later will result in a permanently increased benefit due to delayed retirement credits, which can be earned up to age 70.



Source: *Social Security Administration, 2023 (based on 2022 data)*

72,126

Number of centenarians receiving Social Security benefits in 2022. There were also 2,152,088 beneficiaries age 90 to 99.

Source: *Social Security Administration, 2023*

BEWARE OF THESE LIFE INSURANCE BENEFICIARY MISTAKES

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. While naming your policy's beneficiaries should be a relatively simple task, there are a number of situations that can easily lead to unintended and adverse consequences. Here are several life insurance beneficiary traps you may want to discuss with a professional.

Not naming a beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together or that your named beneficiary may die before you and you haven't named successor beneficiaries. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

Death benefit paid to your estate

If your life insurance is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payments to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming a minor child as beneficiary

Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian — a potentially costly and time-consuming process — to handle the proceeds until the minor beneficiary reaches the age of majority according to state law. If you want the life insurance proceeds to be paid for the benefit of a minor, you may consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

Disqualifying a beneficiary from government assistance

A beneficiary you name to receive your life insurance may be receiving or be eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to a government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

Life Insurance Payout Options

Most life insurance policies offer several options to the policy beneficiary, including:

Lump sum payment	The most common choice. A one-time payment is made of the death benefit proceeds to the beneficiary.
Lifetime annuity	The death benefit proceeds are converted to an income annuity, which makes a fixed, periodic payment to the beneficiary for the rest of his/her life.
Fixed period annuity	Like the lifetime annuity, except the payments will be made over a specified period of time, such as 10 years, after which, payments cease.

Creating a taxable situation

Generally, life insurance death proceeds are not taxed when they're paid. However, there are exceptions to this rule, and the most common situation involves having three different people as policy owner, insured, and beneficiary. Typically, the policy owner and the insured are one and the same person. But sometimes the owner is not the insured or the beneficiary. For example, mom may be the policy owner on the life of dad for the benefit of their children. In this situation, mom is effectively creating a gift of the insurance proceeds for her children/beneficiaries. As the donor, mom may be subject to gift tax. Consult a financial or tax professional to figure out the best way to structure the policy.

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.

While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.

INDIVIDUAL BONDS VS. BOND FUNDS: WHAT'S THE DIFFERENCE?

Individual bonds and bond funds can both provide an income stream, but there are important differences. An individual bond can offer more certainty and stability than a fund, while a fund can offer diversification that might be difficult to obtain with individual bonds.

Coupon, maturity, and yield

An individual bond has a coupon rate — the annual interest rate paid on the face value of the bond — and a maturity date, which is the date the principal is returned to the borrower.

If you hold a bond to maturity, you will receive any interest payments due during the time you own it (typically paid quarterly or semi-annually) and the full principal at maturity, unless the bond issuer defaults. If you sell the bond on the secondary market before maturity, you will receive the market price, which may be higher or lower than the face value or the amount you paid, depending on market conditions.

By contrast, a bond fund does not have a coupon rate or a maturity date (with the exception of certain defined-maturity funds). A fund typically pays monthly distributions based on the bonds in the fund. The rate can change as bonds are replaced (due to maturity or sales), and as market conditions change. A fund also has fees and expenses, which reduce the interest paid, and fund managers can adjust to market conditions in various ways, depending on the fund's objective. Because there is no maturity date, you can hold the fund as long as the fund company remains in business. However, there is never a guarantee that you will receive your principal no matter how long you hold the shares. Fund shares, when sold, may be worth more or less than your original investment.

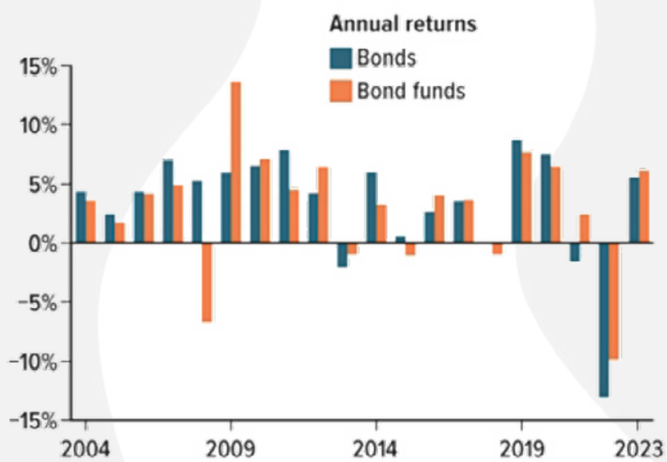
Yield is the expected return from a bond or bond fund, based on the interest rate and purchase price. If you buy a $1,000 bond at face value with a coupon rate of 4%, the yield is 4%. But if you buy the same bond on the secondary market for $800, the yield is 5%, because you receive interest based on the face value: 4% x $1,000 face value = $40 interest / $800 purchase price = 5% yield. Bond fund yields are more complex, but the 30-day SEC yield (or standardized yield) offers a helpful comparison. This is typically calculated using the maximum share price on the last day of the month and projects annual net investment income assuming it remains the same as the previous 30 days.

Interest rate sensitivity

Bonds and bond funds are sensitive to changes in interest rates. Generally, when rates rise, the market value of existing bonds and bond funds falls, because newly issued bonds pay higher interest rates. Conversely, when rates fall, the market value of existing bonds and bond funds rises. This only applies to market values and would not affect an individual bond held to maturity.

Varied Performance

Individual bonds and bond funds have performed differently over the past 20 years. In part, this is because fund managers may respond to the market in different ways; for example, they might try to preserve yield over share price or vice versa. Note that the performance of individual bonds only applies to values on the secondary market, not to bonds held to maturity.



Source: *London Stock Exchange Group, 2024, for the period 12/31/2003 to 12/31/2023. Bonds are represented by the Bloomberg U.S. Aggregate Bond TR Index, and bond funds higher* *are represented by the Thomson US: All Gen Bond - MF Index. Expenses, fees, charges, and taxes are not considered. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Investments seeking higher rates of return involve a higher degree of risk. Past performance is no guarantee of future results. Actual results will vary.*

If you owned bond funds during the period that the Federal Reserve was aggressively raising interest rates, you may have been frustrated as you watched the value of your shares drop. Now that interest rates seem to have stabilized, share values are likely to stabilize as well, and they may increase if rates begin to decrease. Bond funds typically replace underlying bonds as they mature, and new bonds added to funds over the last two years will generally pay higher interest rates, increasing the interest paid by the fund. Although it is impossible to predict future market direction, bond funds may be poised to offer solid returns if rates remain stable or begin to fall.

Diversification does not guarantee a profit or protect against investment loss. Funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

HOUSING MARKET TRENDS: ARE THEY HELPING OR HURTING THE ECONOMY?

In an unusual twist, U.S. home values climbed to an annual record of $389,800 in 2023, even as mortgage rates rose to the highest levels in a generation. The median price of existing homes rose 4.4% for the twelve months ended in December 2023 to reach $382,600. (Buying activity and prices tend to peak during the summer and tick back down when the market slows later in the year.)[1]

Near the end of October 2023, the average rate for a 30-year fixed mortgage climbed to a 23-year high of nearly 8%, before retreating a bit.[2] But despite sky-high borrowing costs, buyer demand exceeded the supply of homes for sale.

As a result, sellers generally fared well, but 2023 was a challenging year for would-be homebuyers.

A market in limbo

Rising mortgage rates and home prices made it harder to afford a home, causing many buyers to be priced out of their favorite neighborhoods and forcing others out of the market altogether. In August 2023, housing affordability dropped to its worst levels since 1985.[3]

Many people who already own homes have been reluctant to sell and move because they would have to finance their next homes at much higher rates than they currently pay — a conundrum that has worsened the inventory shortage.

This persistent lack of inventory combined with low affordability has cut deeply into home sales. For all of 2023, existing home sales fell to the lowest level in nearly 30 years (4.09 million).[4] An estimated 668,000 new homes were sold in 2023, an increase of 4.2% from the previous year, but new construction accounts for less than 15% of the total market.[5]

Housing and GDP

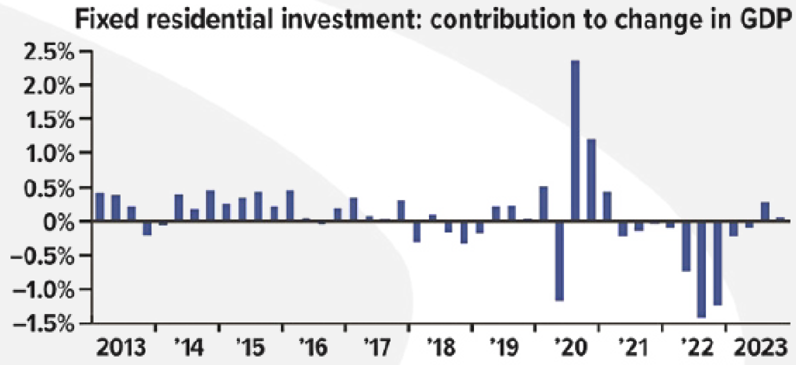
Housing contributes directly to the nation's gross domestic product (GDP) in two ways: spending on housing services and residential fixed investment. Housing services include rental payments, imputed rent (the estimated rental value of owner-occupied homes), and utility payments. Residential fixed investment includes new home construction, residential remodeling, production of manufactured homes, and brokers' fees. In the fourth quarter of 2023, housing accounted for $4.4 trillion of U.S. GDP on a seasonally adjusted annual basis or 15.9% (12.0% for housing services and 3.9% for fixed residential investment).[6]

New home construction stimulates local economies by creating higher-wage jobs and boosting property tax receipts. Nationally (and locally), it benefits other types of businesses as well, by spurring production and hiring in industries that provide raw materials like lumber or that manufacture or sell building tools, equipment, and home components such as windows, cabinets, appliances, and flooring. That's why the Census Bureau's report on housing starts, which were up 7.6% from the previous year's level in December 2023, is considered a leading economic indicator.[7]

Home Building Stages a Recovery

In Q3 2023, fixed residential investment added to U.S. GDP for the first time since Q1 2021. But in Q4, an increase in new residential structures was mostly offset by a decrease in brokers' fees.

Source: U.S. Bureau of Economic Analysis, 2024



Consumers are the key

The health of the housing market can also affect economic activity in other industries indirectly. For example, the "wealth effect" refers to how shifts in home prices, up or down, can influence consumer finances, confidence, and behavior. When home values and equity are rising, consumers who own homes tend to feel wealthier and may be more comfortable spending their money.

The "transaction effect" describes the increase in consumer spending that typically occurs when people move into new homes, which tends to generate demand for goods and services such as appliances, furniture, electronics, home improvement, and landscaping. On the other hand, extremely low affordability might influence younger consumers in a different way. When buying a home seems unattainable, it may cause them to give up on saving for that goal and shift to spending on other things.

Given housing's importance to the economy, there is some concern that a prolonged period of high rates could continue to constrain home building and sales, cause home prices to fall, and damage consumer confidence. When the Federal Reserve begins to cut interest rates, mortgages should gradually follow suit, but that's not likely to happen until GDP growth slows and inflation is no longer seen as the larger threat.

1, 4) National Association of Realtors, 2024;
2) Freddie Mac, 2023;
3) National Association of Realtors via Haver Analytics, 2023;
5, 7) U.S. Census Bureau, 2024;
6) U.S. Bureau of Economic Analysis, 2024

ARE YOU SPENDING MONEY TO KEEP STUFF YOU DON'T NEED?

It's estimated that more than one in 10 Americans leases a storage unit. In June 2023, the nationwide prices charged by self-storage facilities averaged $165 per month, after rising 20% over the previous year.[1] Storage renters may pay more than that for large spaces or climate-controlled units, and at facilities in high-cost cities such as Los Angeles and New York.[2]

If you keep excess belongings stored away from home and well out of sight, this recurring monthly expense may not stay top of mind. However, finding the motivation to empty a storage space could create breathing room in your household budget and/or yield savings over time that helps you make progress toward important financial goals.

Reasons for renting storage space

Not enough space at home	40%
Moving	34%
Downsizing	8%
Changes in household size	7%
Business purposes	5%
Home renovation	3%
Other	2%

Source: StorageCafe.com, April 25, 2023 (does not equal 100% do to rounding)

For example, if you were to invest that $165 per month in a college savings or retirement account, the balance could grow to $28,559 in 10 years or to $85,953 in 20 years (assuming a hypothetical 7% annual rate of return).

This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary. Rates of return will vary over time, particularly for long-term investments.

Clearing space at home

It may not be your favorite way to spend a weekend but decluttering your closets, garage, and living spaces would be a good place to start. Prioritize and make room for the possessions and keepsakes you love most but resolve to let go of things that may not be worth keeping, especially if you must pay for storage indefinitely.

Try to sell furnishings, housewares, toys, or clothing that you don't use regularly for some extra cash by posting ads with photos on resale apps, websites, or social media, or possibly by having a yard sale. If you can't sell certain items, you can feel good about giving them away to friends, neighbors, or a local charity.

1) The Wall Street Journal, August 26, 2023
2) StorageCafe.com. April 25, 2023

IMPORTANT DISCLOSURES

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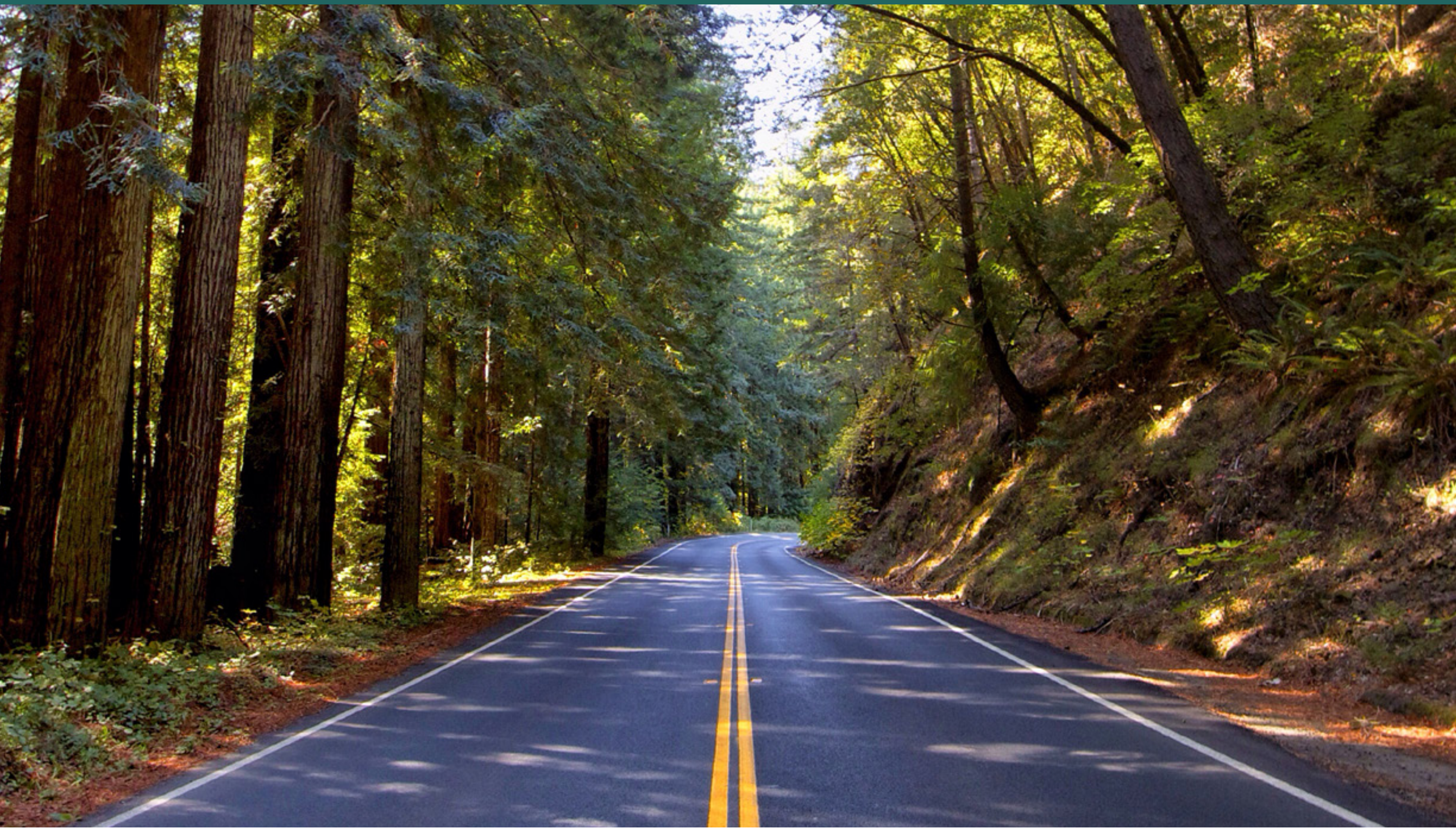

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