

# EFA Update



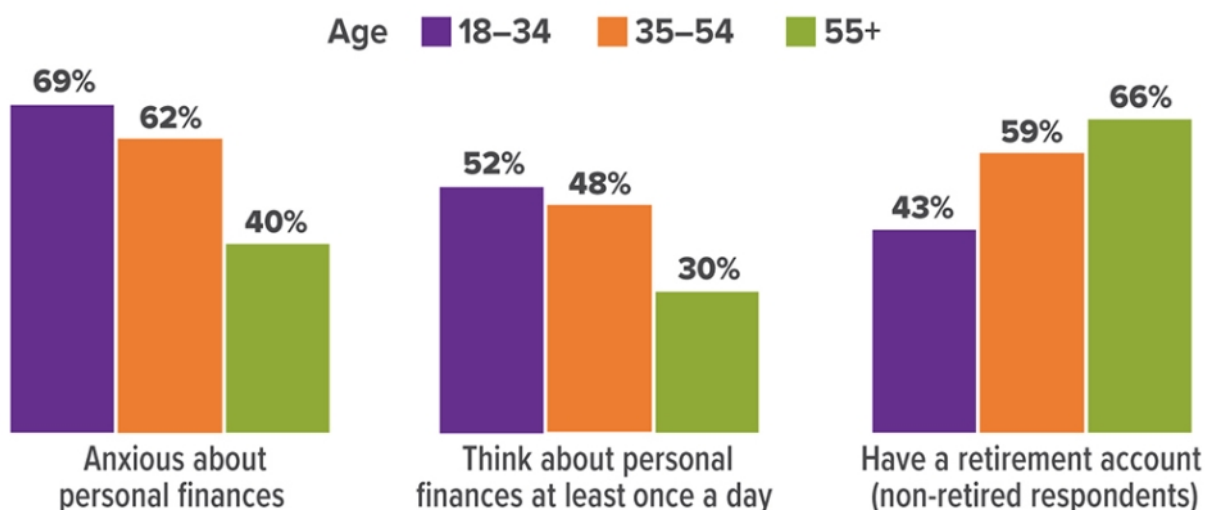
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## Anxious About Your Finances?

A study of financial capability found that older Americans were significantly less anxious about personal finances than younger people. However, about one-third of non-retired people 55 and older had no retirement account.

A comparison of the percentages regarding financial anxiety and retirement accounts suggests that having sufficient resources to contribute to a retirement account is an important aspect of feeling less financial stress for older people. However, many younger people feel stress regardless of whether they have retirement savings. This is especially true of those ages 35 to 54 who may have large mortgages, children in college, and other financial stressors.



Source: FINRA Investor Education Foundation, 2022 (2021 data)

# Why Buy Life Insurance During Unsettled Economic Times?

To say the economy has been uneven over the past few years is an understatement. Amid these bumpy economic times, why buy life insurance? Here are a few reasons.

## Protection for Loved Ones

Savings that were intended to provide support for you and your family may have taken a hit over the past few years due to stock market volatility. If you die, life insurance can be used to replace some of the savings you may have lost during these turbulent economic times. The tax-free death benefit could be used to provide income to your spouse and family, pay off mortgages and loans, meet tax liabilities, or pay for college expenses.

## May Help Diversify Your Portfolio

Certain types of permanent life insurance have a cash value option that can be beneficial during times of economic uncertainty. Some policies offer minimum interest rate guarantees (subject to the financial strength and claims-paying ability of the issuer), that may offer an alternative to the unpredictability of the stock market.

## Offers an Additional Way to Accumulate Wealth


Cash value life insurance allows all interest and earnings on the policy's accumulations to grow tax deferred. You may be able to take withdrawals from the cash accumulation of the life insurance policy. Any withdrawal you make will typically be tax-free up to your basis (i.e., premiums paid) in the policy. Because any earnings grow tax deferred while inside the policy, they will be subject to income tax when you withdraw them. Withdrawals coming out of your policy are generally treated as basis first. Be aware that surrender charges may also apply when you withdraw from your policy, even if you withdraw only up to your basis. One way to avoid this and still access your money is to take a policy loan from the insurance company, using the cash value in the policy as collateral. The amount you borrow is generally not treated as taxable income as long as you repay the loan, and there are no surrender charges because you're not actually withdrawing your money. But you'll have to pay interest on the loan, which is not tax deductible.

## Provides Protection in the Form of Living Benefits

Life insurance may help replace lost funds should you become disabled, need long-term care, or face a terminal illness. For example, if you are terminally ill,

you may be able to receive a portion of the death proceeds from your life insurance before you die in order to pay necessary expenses. Some life insurance policies include a special rider that allows you to accelerate your life insurance death benefit if you need long-term care during your life. Certain riders can be added to a life insurance policy and may help in the event you become disabled and unable to work.

## Comparison of Types of Cash Value Life Insurance



	Whole Life	Variable Life	Universal Life	Variable Universal Life
Earnings grow tax deferred	Yes	Yes	Yes	Yes
Cash value may be withdrawn tax-free	Within limits	No	Within limits	Within limits
Policy loans allowed	Yes	Yes	Yes	Yes
Policy loan proceeds received tax-free (Note: Special tax rules apply if policy is later cancelled)	Yes	Yes	Yes	Yes
Cash value growth guaranteed by insurance company	Yes	No	Yes	No

Optional benefit riders are available for an additional fee and are subject to contractual terms, conditions and limitations as outlined in the policy and may not benefit all investors. Any payments used for covered long-term care expenses would reduce (and are limited to) the death benefit or annuity value and can be much less than those of a typical long-term care policy. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Any guarantees are subject to the financial strength and claims-paying ability of the insurance issuer. The investment return and principal value of the variable investment options will fluctuate and are not guaranteed. Loans and withdrawals from a permanent 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.

# SECURE 2.0: Big Impacts for Small Businesses

An AARP study released in July 2022 found that nearly half of all private sector employees ages 18 to 64 had no access to a retirement plan at work. It also found that small businesses are more likely to lack a work-based plan, putting their workers at a significant disadvantage when it comes to retirement preparations (see chart).

Last December, Congress passed a \$1.7 trillion omnibus package that included the SECURE 2.0 Act of 2022, a sweeping set of provisions designed to improve the nation's retirement-planning health. Here is a brief look at some of the tax perks, rule changes, and incentives included in the legislation to help small businesses and their employees.<sup>1</sup>

## Tax Perks for Employers in 2023

Perhaps most appealing to small business owners, the Act enhances the tax credits associated with adopting new retirement plans, beginning in 2023.

For employers with 50 employees or less, the pension plan start-up tax credit increases from 50% of qualified start-up costs to 100%. Employers with 51 to 100 employees will still be eligible for the 50% credit. In either case, the credit maximum is \$5,000 per year (based on the number of employees) for the first three years the plan is in effect.

In addition, the Act offers a tax credit for employer contributions to employee accounts for the first five tax years of the plan's existence. The amount of the credit is a maximum of \$1,000 per participant, and for each year, a specific percentage applies. In years one and two, employers receive 100% of the credit; in year three, 75%; in year four, 50%; and in year five, 25%. The amount of the credit is reduced for employers with 51 to 100 employees. No credit is allowed for employers with more than 100 workers.

## Rule Changes and Relevant Years

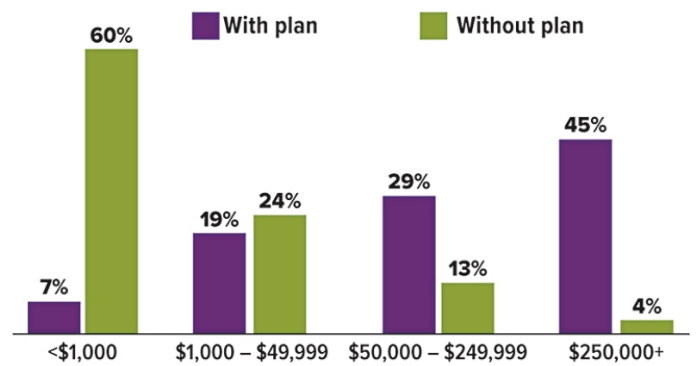
In 2024, employers will be able to adopt a starter 401(k) or similar 403(b) plan, an auto-enrollment plan for employee contributions only. The plan may accept up to \$6,000 per participant annually (\$7,000 for those 50 and older), indexed for inflation. Designed to be lower cost and easier to administer than traditional plans, these programs impose minimum and maximum contribution rates and other rules.

SIMPLE plans may benefit from two new contribution rules. First, employers may make nonelective contributions to employee accounts up to 10% of compensation or \$5,000. Second, the annual contribution limits (standard and catch-up) for employers with no more than 25 employees will increase by 10% more than the limit that would otherwise apply. An employer with 26 to 100 employees would be permitted to allow the higher contribution limits if the employer makes either a

matching contribution on the first 4% of compensation or a 3% nonelective contribution to all participants, whether or not they contribute. These changes also take effect in 2024.

Beginning in 2025, 401(k) and 403(b) plans will generally be required to automatically enroll eligible employees and automatically increase their contribution rates every year, unless they opt out. Employees will be enrolled at a minimum contribution rate of 3% of income, and rates will increase each year by 1% until they reach at least 10% (but not more than 15%). Not all plans will be subject to this new provision; exceptions include those in existence prior to December 29, 2022, and those sponsored by organizations less than three years old or employing 10 or fewer workers, among others.

## Worker Savings Amounts: With Retirement Plan vs. Without



Source: Employee Benefit Research Institute, 2023. "With plan" includes workers with a defined contribution plan, IRA, or defined benefit (DB) plan. Total assets include savings and investments other than the value of their home and DB plan. Numbers may not add up to 100% due to rounding.

## Participant Incentives on the Horizon

SECURE 2.0 drafters were creative in finding ways to encourage workers to take advantage of their plans. For example, effective immediately, employers may choose to offer small-value financial incentives, such as gift cards, for joining a plan, or beginning in 2024, they may provide a matching contribution on employee student loan payments. Also starting in 2024, workers will be able to withdraw up to \$1,000 a year in an emergency without having to pay a 10% early distribution penalty, which may ease the fear of locking up savings until retirement (restrictions apply).

1) SECURE stands for Setting Every Community Up for Retirement Enhancement and originated with the SECURE Act of 2019.

# As Your Parents Age, Help Them Protect Their Finances

It's heartbreaking to hear stories of people losing money (even their life savings) as a result of fraud or financial exploitation, especially if they are older and financially vulnerable. In fact, it's quite common. People age 70 and older reported losses of \$567 million in 2022.<sup>1</sup> You know your parents could be at risk, and you want to protect them, but how?

One place to start is by looking for warning signs that your parents have been victimized, or are at risk of being influenced, manipulated, or coerced by a stranger or someone they know.

- Unusual bank account activity, including large or unexplained withdrawals, and nonsufficient fund notices
- Missing checks, credit cards, or financial statements
- Unpaid bills
- Lost money or valuables that can't be located after a thorough search
- Relationships with people who seem to have undue influence
- Unexplained changes to legal documents
- Declining memory and decision-making skills

Regularly checking in with your parents may help you spot issues that need to be addressed. If your parents have fallen victim to a financial scam or are being pressured for money from someone they know, they may be embarrassed or reluctant to tell you, even if

you ask. Do your best to remain objective and nonjudgmental, and patiently listen to their views while expressing your own concern for their well-being.

Laying some groundwork to help prevent future incidents is also important. For example, talk to your parents about how they might handle common scams. Let them know it's a good idea to get a second opinion from you before acting on any request for information or money, even if it seems to come from their financial institution, a well-known company, law enforcement, a government agency such as the IRS or Social Security Administration, or even a grandchild in trouble.

Encourage them to set up appointments with their elder law attorney or financial professional to talk about concerns and legal and financial safeguards. They might also want to add layers of protection to their financial accounts, such as naming a trusted contact or setting up account alerts.

People are often reluctant to report financial fraud or exploitation, either out of embarrassment or fear of being wrong. But if you suspect your parents have been victimized, you can get help from many sources, including the National Elder Fraud Hotline, sponsored by the U.S. Department of Justice. You can call (833) 372-8311 to be connected with case managers who will assist you and direct you to additional resources.

1) Federal Trade Commission, 2022

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