Mission Financial Morning Bell

On Point Planning for Your Future

Mission Financial

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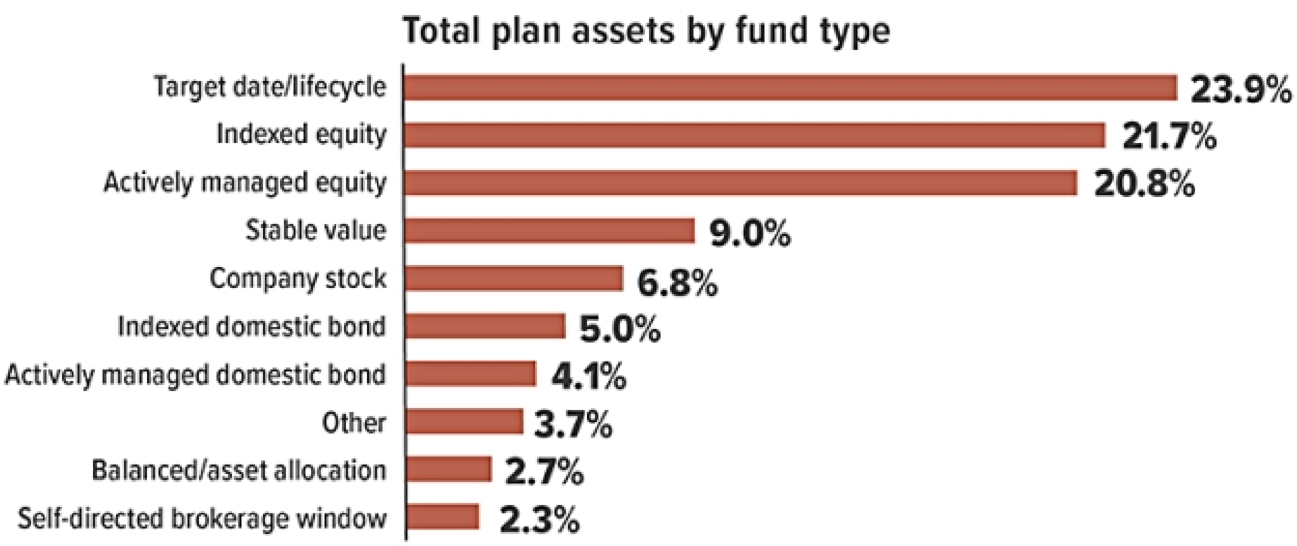
Hello, friends! Summer is coming to an end, and we'll soon begin our transition to fall. Kids have returned to school, the leaves will start to change, and one of our favorite sports is about to "kickoff" – football!

We know that even though the season brings about many changes, there's one thing you consistently desire – confidence in your plan to reach your financial goals. At Mission Financial, we're committed to helping you and your families develop a blueprint that can weather any season. In this newsletter, we'll provide some tips on how dividends can provide income, how life insurance can help mitigate taxes, and building financial resilience.

We hope you find this information valuable, and we hope to see you at our Fall Festival on September 22nd to kick off the season together! Visit our website to RSVP.

How Are 401(k) Plan Participants Investing Their Money?

Created in 1996, National 401(k) Day has historically been celebrated on the Friday following Labor Day to shine a spotlight on this important employee benefit. Since the late 1990s, plans have evolved substantially, and most participants can now choose from a diverse variety of investments. The chart below shows how 401(k) and profit-sharing funds were invested in 2020.



Source: Plan Sponsor Council of America, 2021

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

Mutual 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.

Dividends for Income and Total Returns

John D. Rockefeller, one of the wealthiest Americans in history, loved receiving stock dividends. "Do you know the only thing that gives me pleasure?" he once asked. "It's to see my dividends coming in."[1]

There may be many things other than money that give you pleasure, but you can still appreciate the stabilizing role that dividends might play in your portfolio.

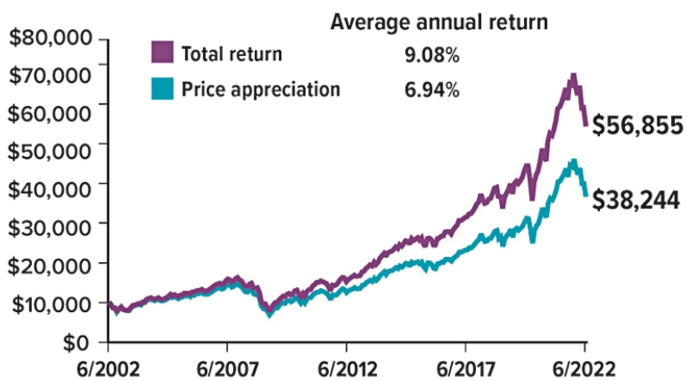
Steady and Dependable

Dividends can be a dependable source of income for retirees and others who want an income stream without selling their underlying investments. If you do not need your dividends for current income, reinvesting these relatively small payments can become a powerful growth engine (see chart). Because dividends are by definition a positive return, they can boost returns in an up market and help balance declining stock prices in a down market.

Whereas stock prices are often volatile and may be influenced by factors that do not reflect a company's fiscal strength (or weakness), dividend payments tend to be steadier and more directly reflect a company's financial position. Larger, well-established companies are more likely to pay dividends, but many midsize and smaller companies do as well. Stock funds usually pay dividends based on the dividends of the stocks held by the fund. Some funds focus specifically on dividend stocks.

The Power of Reinvestment

Growth in value of a hypothetical $10,000 investment in the S&P 500 index for the 20-year period ending in June 2022, comparing price appreciation and total return, which includes reinvesting dividends.



Source: Refinitiv, 2022, for the period 6/30/2002 to 6/30/2022. The S&P 500 index is an unmanaged group of securities considered representative of U.S. stocks. Expenses, fees, charges, and taxes are not considered and would reduce the performance shown if included. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Quarterly Payments

Dividends are typically paid quarterly but quoted by the annual dollar amount paid on each share, so your annual income from an individual stock can be estimated by multiplying the dividend payment by the number of shares you own. Of course, the income will change if the dividend increases or decreases, or you obtain additional shares.

Dividends are also expressed as yield — the annual dividend income per share divided by the current market price. By this measure, the yield increases as the share price decreases, and vice versa, assuming the dividend payment remains the same. Current dividend yields can be helpful in deciding whether to invest in a stock or stock fund, and historical yields can provide insight into what you might expect from dividends over the long term.

At the end of June 2022, the average yield of dividend-paying stocks in the S&P 500 (about 79% of companies) was 2.18%, but the yield of the S&P High Dividend Index, which focuses on 80 stocks that pay higher dividends, was 4.11%.[2]

Some Caveats

The flip side of dividend power is that dividend-paying stocks may not have as much growth potential as non-dividend payers that plow their profits back into the company. And there are times when dividend stocks may drag down, not boost, portfolio performance. Dividend stocks can be particularly sensitive to interest-rate changes. When rates rise, as in the current environment, higher yields of lower-risk, fixed-income investments may be more appealing to investors, placing downward pressure on dividend stocks. As long as a company maintains its dividend payments, however, lower stock prices could be an opportunity to buy shares with higher dividend yields.

Investing in dividends is a long-term commitment. Dividends are typically not guaranteed and could be changed or eliminated. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve higher risk.

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1) BrainyQuote.com, 2022; 2) S&P Dow Jones Indices, 2022

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.

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-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.