# OnWealth

Financial Advice from Wealth Management Services


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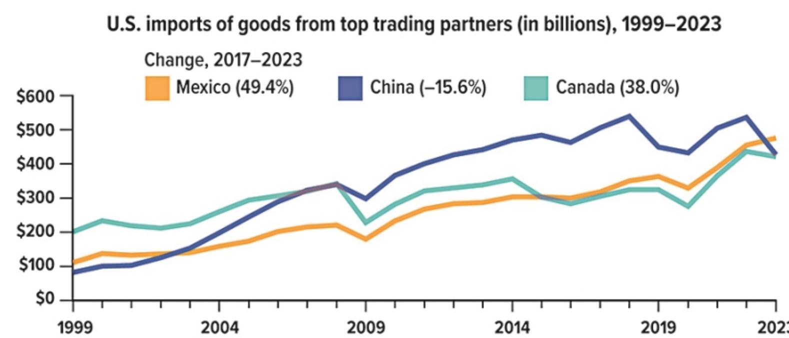
**20X**

Increase in the use of terms such as *decoupling, derisking, reshoring, nearshoring,* and *friendshoring* in U.S. corporate presentations between 2018 and 2020.

Source: McKinsey Global Institute, 2024

## Friend or Foe? Trade Shifts Reflect Geopolitical Risks

In 2023, the United States bought more goods from Mexico than China for the first time since 2002. In 2017, the Trump administration placed steep tariffs on many Chinese products. These levies, which were kept by the Biden administration, make the cost of goods from China less competitive against U.S. products and those imported from nations with free trade agreements. The pandemic, the war in Ukraine, and attacks in the Red Sea have all disrupted supply chains and provided further impetus to reconfigure trade strategies.




Sources: U.S. Census Bureau, 2024; McKinsey Global Institute, 2024



**July 2024**

# Mixing It Up: Asset Allocation and Diversification

Asset allocation and diversification are so fundamental to portfolio structure that it's easy to lose sight of these strategic tools as you track the performance of specific securities or the dollar value of your investments. It might be worth considering how these strategies relate to each other and to the risk and potential performance of your portfolio.

Keep in mind that asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

## Establishing balance

Asset allocation refers to the mix of asset types in a portfolio — generally stocks, bonds, and cash alternatives. These asset classes have different growth and risk profiles and tend to perform differently under various market conditions. Stocks typically have higher long-term growth potential but are associated with greater volatility, while bonds tend to have moderate growth potential with less volatility. Cash alternatives usually have low growth potential but are the most stable of the three asset classes; however, if cash investments do not keep pace with inflation, they could lose purchasing power over time.

There is no right or wrong asset allocation. The appropriate allocation for you depends on your age, risk tolerance, time horizon, and specific goals. Younger investors might be comfortable with a more aggressive allocation heavily weighted toward stocks, because they have a longer time to recover from potential losses and may be willing to accept significant short- to medium-term drops in portfolio value in exchange for long-term growth potential. Older investors who are more concerned with preserving principal and those with near-term investment objectives, such as college funding, might prefer a more conservative allocation with greater emphasis on bonds and cash alternatives.

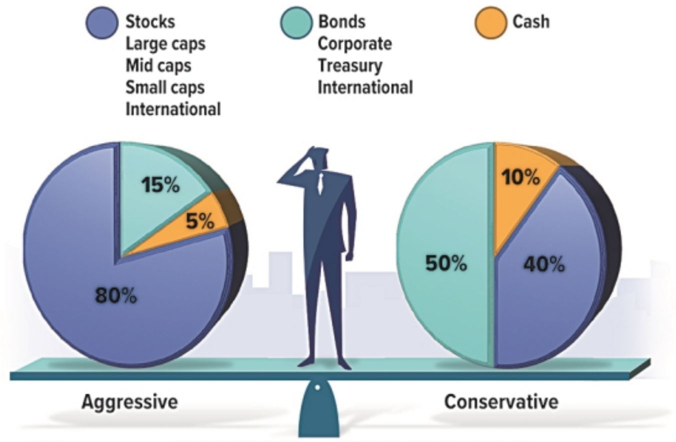
## Adding variety

Diversification refers to holding a wide variety of securities within an asset class to help spread the risk within that class. For example, the stock portion of a portfolio could be diversified based on company size or capitalization (large cap, mid cap, and small cap). You could add international stocks, which tend to perform differently than domestic stocks. A well-diversified portfolio should include stocks across a broad range of industries and market sectors.

A portfolio's bond allocation might be diversified with bonds of different types and maturities. Corporate bonds typically pay higher interest rates than government bonds with similar maturities, but they are associated with a higher degree of risk. U.S. Treasury bonds are guaranteed by the federal government as to the timely payment of principal and interest. Foreign bonds could also increase diversification. Longer-term bonds tend to be more sensitive to interest rates; they typically offer higher yields than bonds with shorter maturities, but this has not been true since the unusual interest-rate increases that began in 2022.

### Sample Portfolios

This chart shows how aggressive and conservative portfolios could be diversified by dividing asset classes among different types of securities. The percentage of each type of security might vary widely depending on the investor's situation and preferences, and many investors may not hold all types of securities.




These hypothetical portfolios are shown for illustrative purposes only. They are examples, not recommendations.

## Staying on target

Once you have established an appropriate asset allocation and diversification strategy, it's important to periodically examine your portfolio to see how it compares to your targeted structure. Depending on the level of change, you may want to rebalance the portfolio to bring it back in line with your strategic objectives. Rebalancing involves selling some investments in order to buy others. Keep in mind that selling investments in a taxable account could result in a tax liability.

*The principal value of stocks and bonds fluctuate with changes in market conditions. Shares of stock, when sold, and individual bonds redeemed prior to maturity may be worth more or less than their original cost. Concentrating in a particular industry or sector could expose your portfolio to significant levels of volatility and risk. Investing internationally involves additional risks, such as differences in financial reporting, currency exchange risk, and economic and political risk unique to the specific country or region. This may result in greater share price volatility. The principal value of cash alternatives may be subject to market fluctuations, liquidity issues, and credit risk; it is possible to lose money with this type of investment.*

# A Pension Strategy that May Boost Your Income

If you participate in a traditional pension plan (also known as a defined benefit plan), your plan may offer several payout options including "qualified joint and survivor annuity" (QJSA) if you are married. A QJSA is an annuity that pays a dollar amount (usually monthly) for the rest of your life, with at least 50% of that amount continuing to your spouse after your death. However, if your spouse consents in writing, you can waive the QJSA and elect instead to receive a single-life annuity. With a single-life annuity, payments are made over your lifetime but stop upon your death. For example, if you receive just one payment after retirement and then die, the single-life annuity would end, and the plan would make no further payments.

## Why elect a single-life option instead of the QJSA?

The single-life annuity generally pays a significantly larger pension benefit than the QJSA. That's because the payments are designed to last for one lifetime instead of two. Pension plan participants who want to maximize their monthly retirement income are often tempted to choose the single-life annuity for this reason. However, most pensioners are also concerned about providing for their spouses if they should die first.

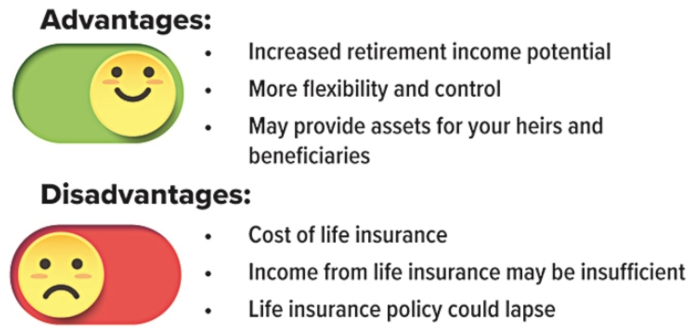
## What is pension maximization?

Pension maximization is a strategy that may help solve this dilemma. The way it works is that your spouse waives the QJSA and you elect the single-life annuity. You then use the additional pension income to purchase insurance on your life, with your spouse named as beneficiary. If you die first, the pension payments will stop, but your spouse will receive the life insurance death proceeds free from federal income tax. The idea is that by coupling the larger pension payments with the purchase of a life insurance policy on your life, you may be able to increase your total income during retirement, while also providing for your spouse's financial future if you die first.

## Is pension maximization right for you?

There are a number of factors to consider. Are you insurable? If not, pension maximization is not a viable strategy. How much will the life insurance cost? (If you are relatively young and in good health, the insurance premiums may be much more affordable than if you are older and/or in poor health.) How much more does the single-life annuity pay than the QJSA? The larger the benefits under the single-life annuity, the more life insurance you'll probably want to buy. (Also make sure to factor in any cost-of-living adjustment the pension plan may provide when analyzing your payment options.) How healthy is your spouse, and what is his/her life expectancy?

### Advantages and Disadvantages of Pension Maximization




## Are there income tax considerations?

The monthly retirement benefits you and your spouse receive from your pension are generally treated as taxable income, subject to federal (and possibly state and local) income tax. This is true regardless of whether you elect a single-life annuity payout or a QJSA. However, since the pension benefits are larger with a single-life annuity, electing that payout option will increase your taxable income during retirement. If you elect the QJSA payout, when the first spouse dies, the pension payout to the survivor will be included in the survivor's taxable income.

If you instead use the pension maximization strategy and die before your spouse, the life insurance death benefits will not be included in your surviving spouse's taxable income, because life insurance death benefits generally pass free from income tax to the beneficiary of the policy. Any earnings from investments of the life insurance proceeds by your surviving spouse (e.g., interest, dividends, and capital gains) may generally be included in your spouse's taxable income.

The pension maximization strategy is not for everyone, but it could be worth considering as you and your spouse evaluate your pension benefit options. (Note: Any guarantees associated with payment of death benefits, income options, or rates of return are based on the financial strength and claims-paying ability of the insurer. Policy loans and withdrawals will reduce the policy's cash value and death benefit.)

***Caution:*** *While life insurance proceeds are generally free from income tax to the beneficiary, estate taxes are another matter. If this is a concern, you should consult a qualified estate planning attorney for appropriate strategies.*

*Be sure to seek qualified professional guidance, since choosing a pension payout option and life insurance coverage can be complex and will impact both your financial future and your spouse's.*

# Do You Need to Pay Estimated Tax?

Taxpayers are required to pay most of their tax obligation during the year by having tax withheld from their paychecks or pension payments, or by making estimated tax payments. Estimated tax is the primary method used to pay tax on income that isn't subject to withholding. This typically includes income from self-employment, interest, dividends, and gain from the sale of assets. Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes reported on your income tax return.

Generally, you must pay federal estimated tax for the current year if: (1) you expect to owe at least $1,000 in tax for the current year, and (2) you expect your tax withholding and refundable tax credits to be less than the smaller of (a) 90% of the tax on your tax return for the current year, or (b) 100% of the tax on your tax return for the previous year (your tax return for the previous year must cover 12 months).

There are special rules for farmers, fishermen, and certain high-income taxpayers. If at least two-thirds of your gross income is from farming or fishing, you can substitute 66.67% for 90% in general rule (2)(a) above. If your adjusted gross income for the previous year was more than $150,000 ($75,000 if you were married and filed a separate return for that year), you must substitute 110% for 100% in general rule (2)(b) above.


*Withholding and estimated tax payments may also be required for state and local taxes.*

If all of your income is subject to withholding, you probably don't need to pay estimated tax. If you have taxes withheld by an employer, you may be able to avoid having to make estimated tax payments, even on your nonwage income, by increasing the amount withheld from your paycheck.

You can use Form 1040-ES and its worksheets to figure your estimated tax. They can help you determine the amount you should pay for the year through withholding and estimated tax payments to avoid paying a penalty. The year is divided into four payment periods. After you have determined your total estimated tax for the year, you then determine how much you should pay by the due date of each payment period to avoid a penalty for that period. If you don't pay enough during any payment period, you may owe a penalty even if you are due a refund when you file your tax return.