OnWealth

Financial Advice from Wealth Management Services

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55 million

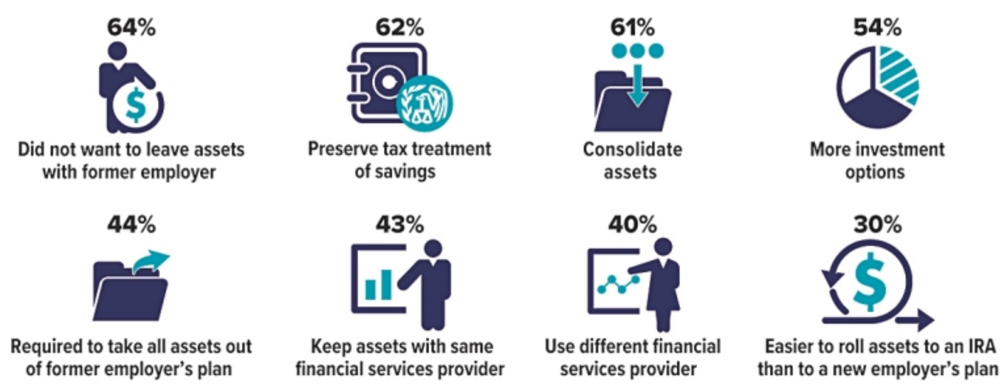
Number of U.S. households with an IRA in 2022. Some households have more than one type of IRA: 40.9 million have a traditional IRA, 32.3 million have a Roth IRA, and 4.9 million have a SEP IRA, SAR-SEP IRA, or SIMPLE IRA.

Source: Investment Company Institute, 2023

Reasons to Roll

When you leave your job or retire, you have an opportunity to manage your funds in an employer-sponsored retirement plan such as a 401(k), 403(b), or government 457(b) plan. Depending on the situation, you generally have four options.* The approach that typically gives you the most control over the funds is to transfer some or all of the assets to an IRA through a rollover.

Three out of five households who owned traditional IRAs in 2022 had executed at least one IRA rollover from an employer-sponsored retirement plan. These were the top reasons for the most recent rollover.



*Other options may include leaving assets in the former employer's plan, transferring assets to a new employer-sponsored plan, or withdrawing the money.

Source: Investment Company Institute, 2023 (multiple responses allowed)

Municipal Bonds: A Tax-Advantaged Way to Put Capital to Work

Municipal bonds are issued by public entities such as state and local governments, health systems, universities, and school districts to help finance the building and maintenance of infrastructure projects such as roads, airports, water systems, and facilities. Despite the higher borrowing costs that resulted from the Federal Reserve's inflation-fighting interest-rate hikes, municipalities issued $308 billion in debt in 2022 to fund capital projects, after selling more than $321 billion in 2021.[1]

At present, many municipalities are in solid financial shape, due to an influx of pandemic stimulus funds and increased income and property tax revenues. Over the longer term, a federal infrastructure bill passed in 2021 is expected to provide additional money for capital projects and help boost municipal credit quality.[2]

This means that investors might be able to tap into the higher yields being offered on muni bonds without taking on greater risk. The yield on the Bloomberg Muni Benchmark 30Y Index, a common benchmark, rose to 3.6% at the end of 2022, after starting the year at just 1.5%.[3]

Municipal bonds issued for new projects, in billions

Source: Refinitive, 2023

Accounting for Taxes

The interest paid by municipal bonds is generally exempt from federal income tax, as well as from state and local taxes if the investor lives in the state where the bond was issued. For this reason, muni bonds and tax-exempt funds have long been a mainstay in the portfolios of income-focused investors who want to manage their tax burdens.

The taxable equivalent yield is the pre-tax yield that a taxable bond must offer for its yield to be equal to that of a tax-exempt muni bond. Tax-free yields are often more valuable to investors in higher tax brackets, and they have become especially appealing in high-cost states now that the federal deduction for state and local taxes is limited to $10,000 a year.

For example, a 5% tax-free yield is equivalent to a taxable yield of about 7.9% for an investor in the 37% bracket and 6.6% for an investor in the 24% tax bracket. Exemption from state income taxes would increase the equivalent yield.

Investors should keep in mind that capital gains taxes could still be triggered if tax-exempt bonds or fund shares are sold for a profit. Also, tax-exempt interest is included in determining whether a portion of any Social Security benefit received is taxable. Some muni bond interest could be subject to the alternative minimum tax.

Reviewing the Risks

Because government entities have the power to raise taxes and fees as needed to pay the interest, muni bonds generally carry lower risk than corporate bonds. From 1970 through 2021, the 5-year default rate for U.S. municipal bonds was 0.08%, compared with 6.8% for global corporates.[4]

Regional economies and the financial strength of issuers can vary widely, so municipal issues are rated for credit risk, as are other bonds. A credit rating ranging from AAA down to BBB (or Baa) is considered "investment grade"; lower-rated or "high yield" bonds carry greater risk.

As interest rates rise, bond prices fall, and vice versa. When redeemed, bonds may be worth more or less than their original cost. Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. The return and principal value of bonds and mutual fund shares fluctuate with changes in interest rates and other market conditions, which can adversely affect investment performance.

The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in any index. Past performance is no guarantee of future results. Actual results will vary.

Mutual funds and ETFs 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.

1) Refinitiv, 2023

2) *The Wall Street Journal,* November 15, 2021

3) Bloomberg.com, November 30, 2022

4) Moody's Investors Service, April 21, 2022

Yours, Mine, and Ours: Financial Tips for Blended Families

Combining finances can be complicated for any couple, but the challenges become more complex the second time around, especially when children are involved. Here are some ideas to consider if you are already part of a blended family or looking forward to combining households sometime soon.

Be Clear and Comprehensive

It's important to reveal all assets, income, and debts, and discuss how these should be treated in your combined family. A prenuptial agreement may seem unromantic, but it could prevent acrimony and misunderstanding if the marriage ends through divorce or the death of a spouse. If you don't want a legal agreement, have an open and honest discussion, and lay all your cards on the table. It's not too late to clarify the situation after you've tied the knot.

One of the most fundamental issues is where you and your new spouse will live. It might be more convenient — and perhaps better financially — to move into a residence that one of you already owns. But couples in a second marriage often report that moving into a new home gives them a feeling of a fresh start, which could have value that can't be measured financially.[1]

Create a blueprint for short-term and long-term finances. Do you plan to combine bank accounts or keep separate accounts, perhaps with a joint account to pay shared expenses? To what accounts will each of your salaries be deposited? Will one spouse help pay off the other spouse's debts such as student loans, auto loans, and credit cards? Research suggests that remarried couples are generally happier when they pool resources, but there are many variations in how that might be carried out.[2]

Consider the Kids

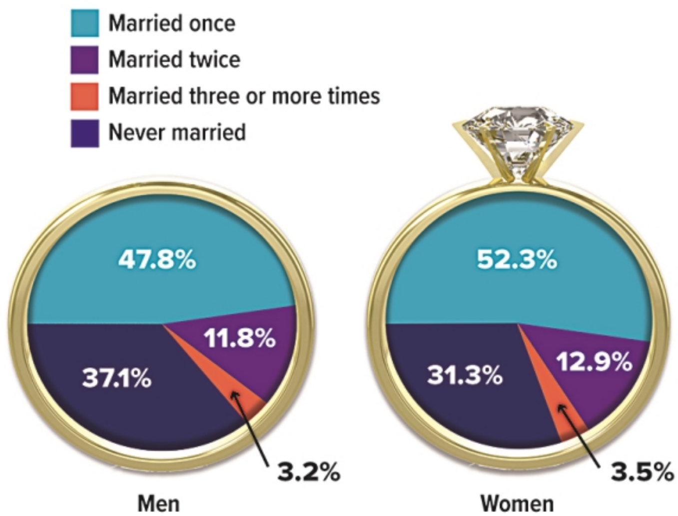
Discuss how you plan to handle financial responsibility for children from previous marriages versus any children you have together. Are they going to be "your kids, my kids, and our kids," or are they all "our kids"? Being a stepparent and/or a divorced parent can be complex emotionally, and there are no easy answers. But there are some not-so-complex financial questions you should address up front.

Be clear about alimony payments, child support, and other financial responsibilities. For example, what is each spouse's intention and/or legal obligation to pay college tuition costs for children from a previous marriage? Are there assets that one spouse wants to reserve for the benefit of his or her children? Is the other spouse willing to waive rights to those assets?

Communicating and planning with an ex-spouse is essential if you share custody of children. Along with responsibilities for everyday expenses, be sure you understand and agree on other financial issues, such as who will claim the child as a beneficiary on tax returns, and who is the "custodial parent" for purposes of financial aid applications. A beneficiary deduction may be more valuable for a parent with higher earnings, but a custodial parent with lower earnings may enable a student to qualify for more financial aid.

I Do, I Do

Roughly two out of three Americans ages 15 and older have been married at least once, and a substantial number have been married more than once.



Source: U.S. Census Bureau, 2022 (2021 data)

Update Wills and Beneficiary Forms

Be sure that your will and all beneficiary forms reflect your new situation and current wishes. A will can designate heirs and facilitate distribution of assets when an estate goes through the probate process. However, the assets in most pension plans, qualified retirement accounts, and life insurance policies convey directly to the people named on the beneficiary forms — even if they are different from those named in your will — and are not subject to probate. By law, your current spouse is the beneficiary of an ERISA-governed retirement account such as a 401(k) plan. If you want to designate an ex-spouse or children from a previous marriage as account beneficiaries, you must obtain a notarized waiver from your current spouse.

Blending families can be challenging on many levels. Financial matters may be easier to deal with than personal aspects as long as you take appropriate steps to identify the issues and agree on your shared financial goals.

1–2) American Psychological Association, August 23, 2019 (most current information available)

A Mortgage Recast Is an Alternative to Refinancing

If you would like to reduce your monthly mortgage payment without having to refinance, then you may want to explore a mortgage recast. When you recast your mortgage, you put money toward the principal balance of your current home loan. Your mortgage lender then recalculates (reamortizes) your loan based on your new, lower balance, which reduces your monthly payment. Your interest rate and the number of years remaining on your loan stay the same. Here are three scenarios where a mortgage recast might be especially appealing.

- You have extra cash on hand, perhaps from a bonus or an inheritance. It's sitting in a low-yield account.
- You are close to retirement or retired. You want to keep your home but lower your monthly expenses.
- You bought a new home with a smaller down payment than you intended because your old home is still on the market. But once your old home sells, the proceeds can be applied to your new mortgage through a recast.

Refinancing your mortgage may be a better option if your goal is to pay off your loan faster by shortening the term, or if you want to lower your interest rate or obtain cash. But if your objective is simply to lower your monthly payment and save on interest charges, then recasting your mortgage may be appropriate.

Recasting is generally simpler and less expensive than refinancing because you're keeping the same mortgage instead of applying for a new one. It doesn't require an extensive application, a credit check, a new appraisal, or closing costs, though you typically will need to pay a processing fee.

Check with Your Lender

Not all mortgage lenders offer recasts, and some types of loans, including FHA, VA, USDA, and certain jumbo loans are not eligible for recasting. If you do qualify for a recast, your lender will give you more details about the process.

You may be able to recast once you've increased your equity by making extra payments or by paying a lump sum toward your mortgage balance. Minimums vary, but the additional principal required may be as little as $5,000. Of course, the more you put toward your principal, the lower your future monthly mortgage payment. If you are currently paying principal mortgage insurance (PMI), putting a lump sum toward your mortgage may help erase that, further lowering your monthly payment.

One drawback of a mortgage recast is that it could tie up money you might need later for other purposes. To access your equity in the future, you may need to refinance, take out a home equity loan, or even sell your home.