OnWealth
Financial Advice from Wealth Management Services

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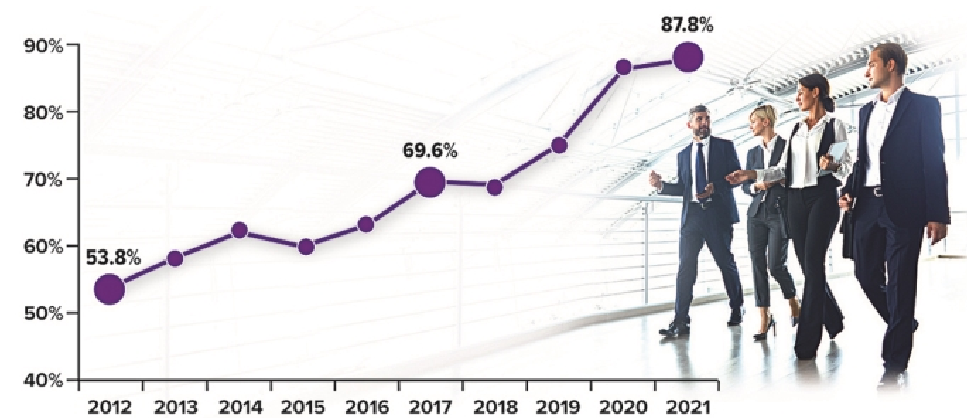
27.7%

Percentage of retirement plan participants making contributions to a Roth 401(k) plan in 2021

Source: Plan Sponsor Council of America, 2022

Employee Access to Roth 401(k) Plans on the Rise

Roth 401(k) plans can offer an ideal opportunity to build a source of tax-free retirement income. There are no income restrictions to participate, they have much higher contribution limits than Roth IRAs, and they may offer employer matching contributions. And thanks to the SECURE 2.0 Act of 2022, beginning in 2024, Roth 401(k)s will no longer impose required minimum distributions in retirement. The percentage of employers offering a Roth 401(k) plan grew substantially from 2012 to 2021, a trend that may continue.



Qualified withdrawals from Roth 401(k)s are free of federal income taxes if the account is held for at least five years and the account holder reaches age 59½, becomes disabled, or dies. State income taxes may apply. Nonqualified withdrawals are subject to regular income taxes and a 10% penalty.

Source: Plan Sponsor Council of America, 2022

New Life for Your Old Insurance Policy

Life insurance can serve many valuable purposes. However, later in life — when your children have grown, you've retired, or you've paid off your mortgage — you may think you no longer need to keep your coverage, or perhaps your coverage has become too expensive. You might be tempted to abandon the policy or surrender your life insurance coverage, but there are other alternatives to consider.

Term vs. Perm

If you have term life insurance, you generally will receive nothing if you surrender the policy or let it lapse by not paying the premiums. However, depending on your age, your health status, and the time left in the term, you may be able to extend the coverage or convert the policy to a permanent policy. The rules for extension and conversion vary by policy and company.

On the other hand, if you own permanent life insurance, the policy may have a cash surrender value (CSV), which you can receive upon surrendering the insurance. If you surrender your cash value life insurance policy, any gain resulting from the surrender (generally, the excess of your CSV over the cumulative amount of premiums paid) will be subject to federal and possibly state income tax. Also, surrendering your policy prematurely may result in surrender charges, which can reduce your CSV.

Exchange the Old Policy

Another option is to exchange your existing permanent life insurance policy for either a new life insurance policy or another type of insurance product. Under the federal tax code, this is known as an IRC Section 1035 exchange.

The exchange must be made directly between the insurance company that issued the old policy and the company issuing the new policy or contract. The rules governing 1035 exchanges are complex, and you may incur surrender charges from your current life insurance policy. In addition, you may be subject to new sales, mortality, expense, and surrender charges for the new policy.

Here are some options for a 1035 exchange.

Lower the premium. If the premium cost of your current life insurance policy is an issue, you may be able to lower the premium by reducing the death benefit, which would not require an exchange. Or you can try to exchange your current policy for a policy with a lower premium cost. However, it's possible that you may not qualify for a new policy because of your age, health problems, or other reasons.

Why Buy Life Insurance?

Although life insurance has traditionally been viewed as a way to replace income after the death of a wage earner, consumers are more likely to give other reasons for purchasing coverage.

Source: NerdWallet, 2022 (multiple responses allowed)

Create an income stream. You may be able to exchange the CSV of a permanent life insurance policy for an immediate annuity, which can provide a stream of income for a specific period of time or for the rest of your life. Each annuity payment will be apportioned between taxable gain and nontaxable return of capital. You should be aware that by exchanging the CSV for an annuity, you will be giving up the death benefit, and annuity contracts generally have fees and expenses, limitations, exclusions, and termination provisions. Also, any annuity guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Provide for long-term care. Another option is to exchange your life insurance policy for a tax-qualified long-term care insurance (LTCI) policy. Any taxable gain in the CSV is deferred in the long-term care policy, and benefits paid from the tax-qualified LTCI policy are received tax-free. Keep in mind that if an LTCI policy does not accept lump-sum premium payments, you would have to make several partial exchanges from the CSV of your existing life insurance policy to the LTCI policy provider to cover the annual premium cost. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. Carriers have the discretion to raise their rates and remove their products from the marketplace.

Whatever option you choose, it may be wise to leverage any cash value in your unwanted life insurance policy to meet other financial needs.

All Eyes on the Earnings Picture

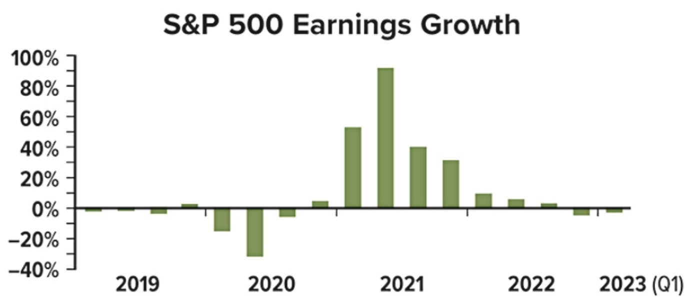
Publicly traded companies are required to disclose their financial performance to regulators and shareholders on a quarterly basis. News organizations and investors pay close attention to these reports because they tend to impact stock prices, with strong earnings driving share prices up, and vice versa.

In the first quarter of 2023, the earnings of companies in the S&P 500 Index declined 2.2%. This was a much stronger showing than Wall Street analysts expected after profits fell 4.6% in the previous quarter. On a positive note, revenues grew 2.9% in Q1 as consumer spending faced down inflation.[1–2]

Earnings season can be a volatile six-week period for stocks. As investors digest and respond to new data, the marketplace rewards some companies and punishes others.

Hindsight Offers Perspective

Stock prices tend to be forward looking, which is one reason they don't always move in the same direction as earnings. For example, the S&P 500 Price Index returned nearly 29% in 2019 and more than 16% in 2020, even though earnings growth was negative in six of those eight quarters.



Sources: FactSet, 2023; S&P Dow Jones Indices, 2023

Measuring Performance

A quarterly report typically includes unaudited financial statements, a discussion of the business conditions that affected financial results, and some guidance about how the company expects to perform in the following quarters. Financial statements reveal the quarter's profit, or net income, which must be calculated according to generally accepted accounting principles (GAAP). This typically involves subtracting operating expenses (including depreciation, taxes, and other expenses) from gross income.

Pro-forma (or adjusted) earnings may present an alternative view of financial performance by excluding nonrecurring expenses such as restructuring costs, interest payments, taxes, and other unique events. Although the Securities and Exchange Commission has rules governing pro-forma financial statements, companies still have a great deal of leeway to highlight the positive and minimize the negative in these reports. There may be a vast difference between pro-forma and GAAP earnings.

Earnings per share (EPS) represents the portion of total profit that applies to each outstanding share of company stock. EPS is often the figure that makes headlines, and the financial media tends to focus on whether companies meet, beat, or fall short of the consensus estimate of Wall Street analysts. A company can see its stock price surge by losing less money than expected or can log billions in profits and still disappoint investors who were counting on more.

Shaping Perception

Due to the potential effect on stock prices, companies often take steps to avoid big surprises, mostly by managing the market's expectations. This may involve issuing profit warnings or positive revisions to previous forecasts, which may cause analysts to adjust their estimates accordingly. Companies may also be able to time certain business moves to help meet quarterly earnings targets.

In addition to filing regulatory paperwork, many companies announce their results through press releases, conference calls, and/or webinars so they can try to influence how the information is judged by analysts, the financial media, and investors.

Diving Deeper

Investors who look beyond the headline performance metrics may find other meaningful details in a company's quarterly report. Expansion plans, research and development, new products, consumer trends, government policies, and shifts in domestic or global economic conditions can all affect a company's financial results, either immediately or in the future.

Bear in mind that reported earnings generally reflect the company's recent performance, which in some cases may have little to do with its longer-term prospects. Moreover, some companies and/or industry sectors are likely in a better position to withstand economic challenges than others.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The S&P 500 Index is an unmanaged group of securities considered to be representative of the U.S. stock market in general. 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 no guarantee of future results. Actual results will vary.

1) FactSet, 2023

2) *The Wall Street Journal,* April 30, 2023

Clean Vehicle Tax Credits: New vs. Qualified Commercial

Federal tax credits may be available to help offset your cost to purchase certain clean vehicles (including electric, plug-in hybrid, and fuel cell vehicles).

The new clean vehicle tax credit can be either a personal or a general business tax credit, depending on whether the vehicle is used in a trade or business. If the vehicle is used 50% or more for business, the credit is treated as a general business tax credit; otherwise, the credit is allocated between personal and business use. The qualified commercial clean vehicles tax credit is a general business tax credit. Both credits are nonrefundable if they exceed your tax liability. An unused general business tax credit can be carried forward to a later year.

New Clean Vehicle Tax Credit

A personal or a general business tax credit of up to $7,500 is available for the purchase of a new clean vehicle meeting certain requirements (including weighing less than 14,000 pounds).

A credit of $3,750 is available if a critical minerals requirement is met, and a credit of $3,750 is available if a battery components requirement is met. Fuel cell vehicles that have final assembly within North America can qualify for the $7,500 credit without regard to these two requirements. The credit is not available for vehicles with a manufacturer's suggested retail price higher than $80,000 for vans, sports utility vehicles, and pickups, or $55,000 for other vehicles. You can check the eligibility of vehicles for the credit at fueleconomy.gov.

The credit is generally not available if the purchaser's modified adjusted gross income for the taxable year or the preceding taxable year (whichever is less) exceeds $150,000 ($300,000 for joint filers and surviving spouses, $225,000 for heads of households). The income limitation does not apply to corporations subject to the corporate income tax. In the case of a partnership or S corporation, the credit is allocated to the partners or shareholders, respectively, and the income limitation is applied to those individuals.

Qualified Commercial Clean Vehicles Tax Credit

A general business tax credit of up to $7,500 ($40,000 if the vehicle weighs 14,000 or more pounds) is available for the purchase of a qualified commercial clean vehicle meeting certain requirements.

The credit is equal to the lesser of (a) 15% of the tax basis (generally, the purchase price) of the vehicle (30% if the vehicle is not powered by a gasoline or diesel internal combustion engine), or (b) the incremental cost of the vehicle (the excess of the purchase price of the clean vehicle over the price of a comparable vehicle that is powered solely by a gasoline or diesel internal combustion engine).