Captain's Log

Guiding Your Financial Journey

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$29,100

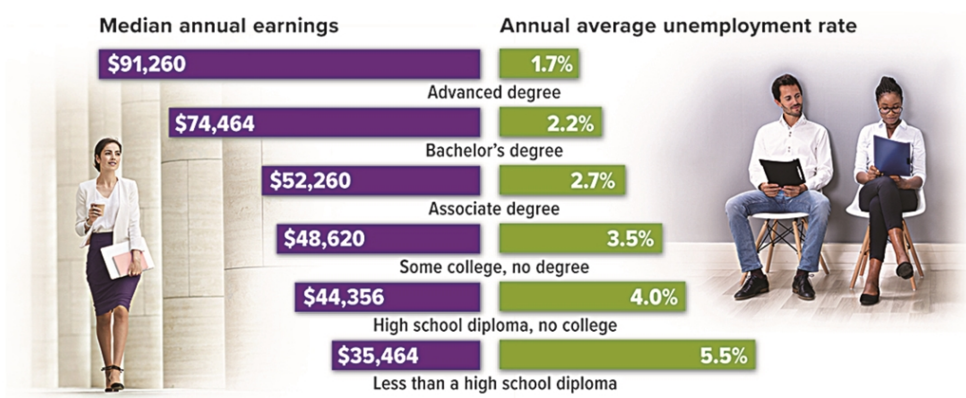
Average cumulative debt for 2020–21 bachelor's degree recipients who graduated with debt from public and private nonprofit four-year institutions; 54% of students graduated with debt. This was an improvement over the 2015–16 school year, when 60% of students graduated with an average debt of $32,100.

Source: College Board, 2022

Education and Earnings

While there is widespread concern about student debt and the cost of higher education, data from the U.S. Bureau of Labor Statistics makes a strong case that higher education leads to higher earnings and lower unemployment rates.

In 2022, median annual earnings for a full-time worker with a bachelor's degree were about $30,000 more than for a worker with only a high school diploma, a difference of more than $1 million over a 35-year career. Even so, it's important to be realistic about taking on debt in relation to expected earnings, as the job market and potential compensation can vary widely for different fields of study.



Source: U.S. Bureau of Labor Statistics, 2023 (data for ages 25 and older; annual earnings based on usual weekly earnings for full-time wage and salary workers)

Give Your Money a Midyear Checkup

If 2023 has been financially challenging, why not take a moment to reflect on the progress you've made and the setbacks you've faced? Getting into the habit of reviewing your finances midyear may help you keep your financial plan on track while there's still plenty of time left in the year to make adjustments.

Goal Overhaul

Rising prices put a dent in your budget. You put off a major purchase you had planned for, such as a home or new vehicle, hoping that inventory would increase and interest rates would decrease. A major life event is coming up, such as a family wedding, college, or a job transition.

Both economic and personal events can affect your financial goals. Are your priorities still the same as they were at the beginning of the year? Have you been able to save as much as you had planned? Are your income and expenses higher or lower than you expected? You may need to make changes to prevent your budget or savings from getting too far off course this year.

Post-Tax Season Estimate

Completing a midyear estimate of your tax liability may reveal planning opportunities. You can use last year's tax return as a basis, then factor in any anticipated adjustments to your income and deductions for this year.

Check your withholding, especially if you owed taxes or received a large refund. Doing that now, rather than waiting until the end of the year, may help you avoid a big tax bill or having too much of your money tied up with Uncle Sam.

You can check your withholding by using the IRS Tax Withholding Estimator at [irs.gov.](https://irs.gov) If necessary, adjust the amount of federal income tax withheld from your paycheck by filing a new Form W-4 with your employer.

Investment Assessment

Review your portfolio to make sure your asset allocation is still in line with your financial goals, time horizon, and tolerance for risk. How have your investments performed against appropriate benchmarks, and in relationship to your expectations and needs? Looking for new opportunities or rebalancing may be appropriate, but be cautious about making significant changes while the market is volatile.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investing involves risk, including the possible loss of principal and there is no guarantee that any investment strategy will be successful.

More to Consider

Here are five questions to consider as part of your midyear financial review.

Retirement Savings Reality Check

If the value of your retirement portfolio has dipped, you may be concerned that you won't have what you need in retirement. If retirement is years away, you have time to ride out (or even take advantage of) market ups and downs. If you're still saving for retirement, look for opportunities to increase retirement plan contributions. For example, if you receive a pay increase this year, you could contribute a higher percentage of your salary to your employer-sponsored retirement plan, such as a 401(k), 403(b), or 457(b) plan. If you're age 50 or older, consider making catch-up contributions to your employer plan. For 2023, the contribution limit is $22,500, or $30,000 if you're eligible to make catch-up contributions.

If you are close to retirement or already retired, take another look at your retirement income needs and whether your current investment and distribution strategy will provide enough income. You can't control challenging economic cycles, but you can take steps to help minimize the impact on your retirement.

Financing Options to Help You Ride the Mortgage Rate Roller Coaster

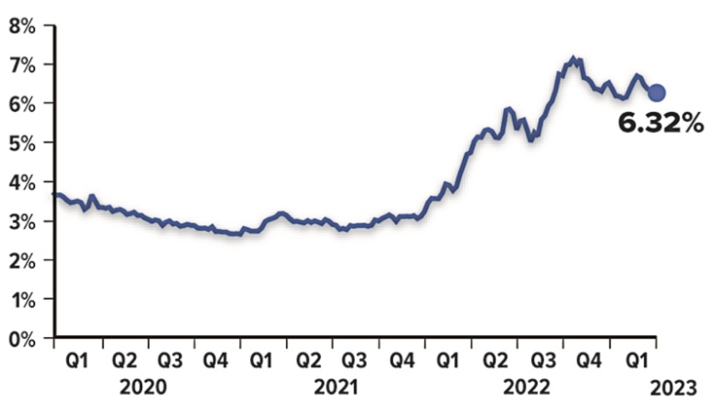
The mortgage industry has been on a roller coaster ride over the last couple of years. Interest rates for fixed-rate mortgage loans were at historical lows during the beginning of the pandemic in 2020, rising to a 20-year high in late 2022 — and fluctuating ever since.[1] Many buyers are finding it difficult to afford a new home with traditional fixed-rate mortgage loans in such a high interest rate environment. As a result, more buyers are relying on alternative financing options to help lower their interest rates.[2]

Adjustable-Rate Mortgages

With an adjustable-rate mortgage (ARM), also referred to as a variable-rate mortgage, there is a fixed interest rate at the beginning of the loan which then adjusts annually for the remainder of the loan term. ARM rates are usually tied to the performance of an index. To determine the ARM rate, the lender will take the index rate and add it to an agreed-upon percentage rate, referred to as the margin. Most lenders offer ARMs with fixed-rate periods of five, seven or 10 years, along with caps that limit the amount by which rates and payments can change.

The initial interest rate on an ARM is generally lower than the rate on a traditional fixed-rate mortgage, which will result in a lower monthly mortgage payment. However, depending on interest rates, buyers with ARMs may find themselves with significantly higher mortgage payments once the fixed-rate period ends. Buyers should only consider ARMs if they can tolerate fluctuations in their mortgage payments or plan on refinancing or selling the home before the initial interest rate period ends.

30-Year Fixed Mortgage Interest Rates, January 2020 to March 2023



Source: Freddie Mac, 2023 (data through March)

Temporary Buydowns

A temporary buydown provides the buyer with a lower interest rate on a fixed-rate mortgage during the beginning of the loan period (e.g., the first one or two years) in exchange for an upfront fee or higher interest rate once the buydown feature expires. Buydowns typically offer large interest rate discounts (e.g., up to one to three percentage points, depending on the type of buydown). The costs associated with the buydown feature can be paid for by the home buyer, seller, builder, or mortgage lender.

While a buydown can make a home purchase more affordable at the beginning of the loan period, the long-term interest rates and mortgage payments on the loan can end up being substantially higher. This is why a borrower usually must initially qualify for the loan based on the full interest rate in effect after the buydown expires.

Assumable Mortgages

Assumable mortgages may be another way for buyers to circumvent high mortgage rates. An assumable mortgage is when a buyer takes over a seller's existing loan and loan terms and pays cash or takes out a second mortgage to cover the remainder of the purchase price.

This type of loan could be advantageous if the existing loan has a low enough interest rate, and the buyer has enough access to cash or financing to cover the difference between the sale price and outstanding balance of the assumed loan. Not all mortgage loans are assumable — generally they are limited to certain types of government-backed loans (e.g., FHA, VA loans).

Other Incentives

One type of incentive offered by lenders is for a buyer to pay an upfront fee at closing, also known as points. By paying points at closing, buyers can reduce their interest rates — usually by around .25 percent per point — and lower their monthly mortgage loan payments. To make paying points cost effective, buyers should plan on staying in the home for several years so that they can recoup the costs. Sometimes a home builder or seller will offer to pay for points on a mortgage in order to attract more potential buyers.

Another incentive, often referred to as a "future refi," is one that allows borrowers to purchase a home at current interest rates, with the ability to refinance their loans at a later date. The refinancing can be free or the costs can be rolled into the new loan, depending on the lender and loan type. Keep in mind that there is typically a set time period for refinancing with these types of loans.

1-2) Consumer Financial Protection Bureau, 2022

Leave a Lasting Gift with an Ethical Will

A legal will describes how you want your material assets to be distributed, but how do you leave behind your values? Using an ethical will, also called a legacy letter, you can tell your personal story and communicate your beliefs and life lessons to your family, friends, or community. You can opt to share it during your lifetime or leave it as a special gift for your loved ones to cherish after you're gone.

Despite the name, an ethical will isn't a legal document, and though often written, it can be in any creative format you choose. You might make a video or audio recording, create a photo album or a scrapbook, write and record a song, or put together a collection of recipes.

There are no rules that dictate what to include. For example, you might decide to write a few pages recounting meaningful family stories, while adding personal notes of love and gratitude. You might share challenges you've overcome or explain why you made certain decisions. You could tell your children how they have enriched your life or simply record a brief message to inspire future generations.

No matter which format you choose and what you decide to say, consider keeping the tone positive and helpful. Think about how your message might be received, and how future generations might benefit from what you have to say.

The process of writing an ethical will may seem daunting, but it can also be rewarding as you reflect on your experiences and what you truly value. Here are a few questions to help you get started.

- What principles guide your life?
- What are you most grateful for?
- How would you like to be remembered?
- How have specific experiences or events shaped you?
- What are some important choices you've made?
- How have you treated others, and how have others treated you?
- What have you not had the chance to say?
- Who were the most influential or admirable people in your life?
- Which charitable organizations are most important to you and why?
- What are your hopes for future generations?

If you need further information and inspiration, you can find samples, templates, books, and workshops online. Your attorney may also help guide you.

Once you've crafted your ethical will, make sure it's preserved in digital or printed form, or both. Share it now, or keep it with other estate documents, such as a copy of your legal will and advance care directives, and tell others where to find it.