

WealthMonitor



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**Wealth
Management**



5.12 million

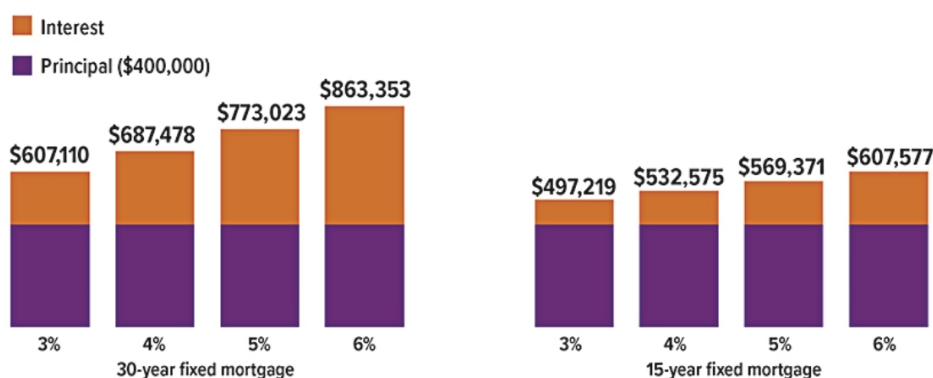
Existing home sales in June 2022, down 14.2% from June 2021. Rising mortgage rates and general inflation have cut into purchasing power for homebuyers, while the national median existing-home price reached a record \$416,000, up 13.4% from one year ago. A recent increase in homes on the market may help to ease prices, but that remains to be seen.

Source: National Association of Realtors, 2022

The Cost of Borrowing

In April 2022, the average interest rate for a 30-year fixed mortgage surpassed 5% for the first time since April 2010, and it was still above 5% in August. With higher rates, it's more important than ever to understand how interest increases the total cost of a mortgage.

The chart below shows the total cost for a \$400,000 conventional 30-year fixed mortgage and an accelerated 15-year fixed mortgage (typically used for refinancing) at different interest rates. A \$400,000 mortgage would enable a buyer to purchase a \$500,000 home with a 20% down payment.



Source: Freddie Mac, 2022. *This hypothetical example of mathematical principles is used for illustrative purposes only. Actual results will vary.*

How Much Life Insurance Do You Need?

Throughout your life, your financial needs will change and life insurance can help you meet some of those needs. But how much life insurance do you need? There are a number of approaches to help determine how much life insurance you should have. Here are three of those methods.

Family Needs Approach

With this approach, you divide your family's financial needs into three main categories:

- Immediate needs at death, such as cash needed for estate taxes and settlement costs, credit-card and other debts including a mortgage (unless you choose to include mortgage payments as part of ongoing family expenses), and an emergency fund for unexpected costs
- Ongoing income needs for expenses such as food, clothing, shelter, and transportation, which will vary in amount and duration, depending on a number of factors, such as your spouse's age, your children's ages, your surviving spouse's income, your debt, and whether you'll provide funds for your surviving spouse's retirement
- Special funding needs, such as college, charitable bequests, funding a buy/sell agreement, or business succession planning

Once you determine the total amount of your family's financial needs, subtract that total from the available assets your family could use to help defray some or all of these expenses. The difference, if any, represents an amount that the life insurance proceeds, and the income from future investment of those proceeds, might cover.

Income Replacement Calculation

This method is based on the premise that family income earners should buy enough life insurance to replace the loss of income due to an untimely death. Under this approach, the amount of life insurance you should consider is based on the value of the income that you can expect to earn during your lifetime, taking into account such factors as inflation and anticipated salary increases, as well as the interest that the lump-sum life insurance proceeds may generate.

Estate Preservation and Liquidity Needs Approach

This method attempts to calculate the amount of life insurance needed to settle your estate. Settlement costs may include estate taxes and funeral, legal, and accounting expenses. The goal is to preserve the value of your estate at the level prior to your death and to avoid an unwanted sale of assets to pay for any of these estate settlement expenses. This approach

takes into consideration the amount of life insurance you may want in order to maintain the current value of your estate for your family, while providing the cash needed to cover death expenses and taxes.

Unfortunately, many people underestimate their life insurance needs. Often, the purchase of life insurance is based solely on its cost instead of the benefit it might provide. By the same token, it's possible to have more life insurance than you need. September is Life Insurance Awareness Month, a good time to review your life insurance to help ensure that it matches your current and projected needs.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Optional benefits are available for an additional cost and are subject to contractual terms, conditions, and limitations.

Interest in Life Insurance Stays Strong



68%
of life insurance owners report
feeling financially secure



44%
say they'd face financial hardship
within 6 months if a primary
wage earner died



41%
say they need life insurance —
or more of it



31%
of people say COVID-19 has made
it more likely they'll purchase life
insurance within the next 12 months

Source: 2022 Insurance Barometer Study, Life Happens and LIMRA

Working While Receiving Social Security Benefits

The COVID-19 recession and the continuing pandemic pushed many older workers into retirement earlier than they had anticipated. A little more than 50% of Americans age 55 and older said they were retired in Q3 2021, up from about 48% two years earlier, before the pandemic.¹

For people age 62 and older, retiring from the workforce often means claiming Social Security benefits. But what happens if you decide to go back to work? With the job market heating up, there are opportunities for people of all ages to return to the workforce. Or to look at it another way: What happens if you are working and want to claim Social Security benefits while staying on your job?

Retirement Earnings Test

Some people may think they can't work — or shouldn't work — while collecting Social Security benefits. But that's not the case. However, it's important to understand how the retirement earnings test (RET) could affect your benefits.

- The RET applies only if you are working and receiving Social Security benefits *before* reaching full retirement age (FRA). Any earnings after reaching full retirement age do not affect your Social Security benefit. Your FRA is based on your birth year: age 66 if born in 1943 to 1954; age 66 & 2 months to 66 & 10 months if born in 1955 to 1959; age 67 if born in 1960 or later.
- If you are under full retirement age for the entire year in which you work, \$1 in benefits will be deducted for every \$2 in gross wages or net self-employment income above the annual *exempt amount* (\$19,560 in 2022). The RET does not apply to income from investments, pensions, or retirement accounts.
- A monthly limit applies during the year you file for benefits (\$1,630 in 2022), unless you are self-employed and work more than 45 hours per month in your business (15 hours in a highly skilled business). For example, if you file for benefits starting in July, you could earn more than the annual limit from January to June and still receive full benefits if you do not earn more than the monthly limit from July through December.
- In the year you reach full retirement age, the reduction in benefits is \$1 for every \$3 earned above a higher annual exempt amount (\$51,960 in 2022 or \$4,330 per month if the monthly limit applies). Starting in the month you reach full retirement age, there is no limit on earnings or reduction in benefits.
- The Social Security Administration may withhold benefits as soon as it determines that your earnings are on track to surpass the exempt amount. The estimated amount will typically be deducted from your monthly benefit in full. (See *example*.)

- The RET also applies to spousal, dependent, and survivor benefits if the spouse, dependent, or survivor works before full retirement age. Regardless of a spouse's or dependent's age, the RET may reduce a spousal or dependent benefit that is based on the benefit of a worker who is subject to the RET.

Back to Work

In this hypothetical example, Fred claimed Social Security in 2021 at age 62, and he was entitled to a \$1,500 monthly benefit as of January 2022. Fred returned to work in April 2022 and is on track to earn \$31,560 for the year — \$12,000 above the \$19,560 RET exempt amount. Thus, \$6,000 (\$1 for every \$2 above the exempt amount) in benefits will be deducted. Assuming that the Social Security Administration (SSA) became aware of Fred's expected earnings before he returned to work, benefits might be paid as illustrated below.

JANUARY	FEBRUARY	MARCH	APRIL
\$1,500	\$1,500	\$1,500	\$0
MAY	JUNE	JULY	AUGUST
\$0	\$0	\$0	\$1,500
SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
\$1,500	\$1,500	\$1,500	\$1,500

In practice, benefits may be withheld earlier in the year or retroactively, depending on when the SSA becomes aware of earnings.

The RET might seem like a stiff penalty, but the deducted benefits are not really lost. Your Social Security benefit amount is recalculated after you reach full retirement age. For example, if you claimed benefits at age 62 and forfeited the equivalent of 12 months' worth of benefits by the time you reached full retirement age, your benefit would be recalculated as if you had claimed it at age 63 instead of 62. You would receive this higher benefit for the rest of your life, so you could end up receiving substantially more than the amount that was withheld. There is no adjustment for lost spousal benefits or for lost survivor benefits that are based on having a dependent child.

If you regret taking your Social Security benefit before reaching full retirement age, you can apply to withdraw benefits within 12 months of the original claim. You must repay all benefits received on your claim, including any spousal or dependent benefits. This option is available only once in your lifetime.

1) Pew Research Center, November 4, 2021

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-Kersey

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.

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