Abraham Dugal Now a CERTIFIED FINANCIAL PLANNER™ Professional

Abraham Dugal

Abraham Dugal, a financial advisor at Allen Insurance and Financial, has achieved the designation of CERTIFIED FINANCIAL PLANNER™ Professional.

A member of the Allen Financial team since 2015, Dugal works with individuals, families, business and non-profit organizations providing investment management, risk management and financial planning services aligned with helping them to meet their financial goals.

The CFP® designation has become the most recognized in the financial planning community. Requirements include meeting stringent education and experience standards and a rigorous 10-hour exam. Dugal joins his colleagues Michael Pierce and Thomas C. Chester as the third CFP® on the Allen Financial staff.

“Abe’s efforts demonstrate his deep commitment to continuing professional development,” said Mike Pierce, company president.

"Now more than ever our clients are well served by dedication to the requirements of programs such as these."

A native of Lincolnville, Dugal is a graduate of Camden Hills Regional High School and Babson College in Wellesley, Mass., where he majored in business management with a concentration in finance. He holds FINRA Series 66 and 7 securities registrations. He lives in Camden with his wife and son.

A Guide to Benefits When Changing Jobs

If you're changing jobs, you probably have a lot on your mind. As you wrap up work with your previous employer and prepare for your new role, it can be easy to let important benefits-related decisions fall by the wayside. If that happens, you could miss a limited opportunity to sign up for new benefits or miss out on making wise changes to your plans. To stay on track financially during a career transition, be sure to review the status of your retirement accounts and other valuable employee benefits.

Qualified Retirement Plans

Many employers offer qualified retirement plans, such as 401(k) and 403(b) accounts. ("Qualified" means that these plans qualify for tax advantages per IRS rules.) When transitioning to a new job, you're entitled to keep the vested balance in your qualified retirement plan, including contributions and earnings. You're also entitled to keep any employer contributions that have vested according to your employer's schedule.

What can you do with the money? You have several options:

- Leave the funds in your current employer's plan if your vested balance exceeds $5,000. If the balance is less than $5,000, the plan could require that you roll over or distribute your assets.
- Roll over the funds to an individual IRA or, if allowed, to your new employer's plan.
- Withdraw the funds and pay any taxes due along with any applicable penalties. (It's wise to carefully consider any decision to withdraw and spend your retirement savings.)

Accumulation rights. If you wish to roll over the funds, consider the accumulation rights you may be giving up by switching to a different plan. Accumulation rights offer shareholders the potential for reduced commissions when purchasing additional fund shares. If you have such rights with your current plan, they could become important if you plan to purchase a sizable amount of shares.

Potential penalties and fees. It's also important to consider the possibility of premature distribution penalties, as well as any fees and expenses a new plan may impose. If you've separated from service in the year you turn 55, or at any later age, any assets distributed from your old employer's plan aren't subject to the standard 10 percent penalty. Once funds are rolled into an IRA or a new plan, however, the 10 percent penalty may apply to subsequent distributions if you're younger than 59½ at the time, unless you can claim an exception.

Rolling funds over to an IRA. Factors to consider before taking this action include:

Advantages

- IRAs may provide more investment choices than employer plans.

- IRA assets can be allocated to different IRAs. There is no limit on how many direct transfers you can make from one of your IRAs to another IRA in a year. This means you can easily move money between IRAs if you’re dissatisfied with an account’s performance or administration.
- Although 401(k) distribution options depend on the plan terms, IRAs offer more flexibility.
- IRAs have more premature penalty exceptions than 401(k) plans.

Disadvantages

- When you turn 72, you must start taking required minimum distributions (RMDs) from pretax IRAs, whereas you may be able to defer them in a 401(k) until the year you retire if your employer allows for it. (There are no RMDs from Roth IRAs during the account owner’s lifetime.)
- IRA account expenses, such as trading charges or annual fees, may be higher than qualified retirement plans.
- When you roll funds over from a 401(k) to a Roth IRA, taxes will need to be paid on the pretax contributions; however, any future distributions from the Roth IRA may be tax free if IRS requirements are met.

Rolling funds over to your new employer’s plan. Employer plans offer the following advantages:

- If you intend to work beyond age 72, participation in the employer’s qualified plan means you can typically delay the first RMD until the year you retire if the plan allows. (An exception applies if you own 5 percent or more of the business offering the plan.)
- Employer 401(k) plans may receive greater creditor protection than IRAs. Typically, employer plan funds cannot be used to satisfy most creditors, while the

federal protection for IRA funds is more limited.

Stock Options and Nonqualified Deferred Compensation Plans

Prepare a list of any stock options you’ve received from your employer. Often, vested options expire within a specified time frame when you leave a job. Deciding whether to exercise your options depends on your financial situation and whether your options are “in the money” (i.e., the exercise price is lower than the market value).

Nonqualified deferred compensation plans allow executives to defer a portion of their compensation and the associated taxes until the deferred income is paid. With these plans, leaving your employment may trigger the need to take distributions in lump-sum or installment payments. You should be aware that any distributions will affect your taxable income.

Life Insurance and Disability Insurance

Employer-provided life insurance remains active only while you are employed. Ask if you have the option to convert the policy to an individual policy offered by the same insurance provider. If you do switch to an individual policy, however, the premium will likely increase. In some cases, it may be time to evaluate policy options from other companies. If you’re in between jobs, for instance, you may want to consider an individual policy that won’t be affected by employment changes.

Health Insurance

Your health insurance will expire once you leave an employer. COBRA may be a good option if you need interim health insurance coverage. Keep in mind, however, that your premium payments will increase when you opt for COBRA coverage. Shopping for an individual health insurance policy that meets your needs could reduce your premiums.

New Benefits Review

Once you start your new job, take time to understand the new benefit options, including health insurance, disability insurance, and employer savings plans. It's important to review how the new employer retirement plan options fit into your overall savings plan, including any employer matches. Remember to fill out beneficiary designations for insurance policies and saving plans—and review those designations periodically. Finally, if your salary has changed, it's a good time to determine whether you should adjust your tax withholding and investment elections.

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If you are considering rolling over money from an employer-sponsored plan, such as a 401(k) or 403(b), you may have the option of leaving the money in your current employer-sponsored plan or moving it into a new employer-sponsored plan. Benefits of leaving money in an employer-sponsored plan may include access to lower-cost institutional class shares; access to investment planning tools and other educational materials; the potential for penalty-free withdrawals starting at age 55; broader protection from creditors and legal judgments; and the ability to postpone required minimum distributions beyond age 72, under certain circumstances. If your employer-sponsored plan account holds significantly appreciated employer stock, you should carefully consider the negative tax implications of transferring the stock to an IRA against the risk of being overly concentrated in employer stock. Your financial advisor may earn commissions or advisory fees as a result of a rollover *that may not otherwise be earned if you leave your plan assets in your old or a new employer-sponsored plan and there may be account transfer, opening, and/or closing fees associated with a rollover. This list of considerations is not exhaustive. Your decision whether or not to roll over your assets from an employer-sponsored plan into an IRA should be discussed with your financial advisor and your tax professional.*

Financial Planning Considerations for Single Women

For various reasons, the state of a woman's financial security often depends on her marital status. A study from the U.S. Government Accountability Office says that women's household income dropped by 41 percent after divorce, nearly double the size of the decline men experienced. In 2020, women earned just 82.3 cents on the dollar compared with men, according to the Department of Labor's Bureau of Labor Statistics, a gap that was more pronounced for women of color. And women earn less than their male counterparts in nearly every occupation. Whether you are newly divorced, widowed, or single by choice, the following tips could help you shore up your financial security.

Be involved in your finances. A Stanford Center on Longevity study found that women tend to be as confident as men in making routine financial decisions but much less confident—and usually less involved in—making major financial decisions such as saving for retirement or investing.

In many cases, a woman going through a divorce or the loss of a spouse may not be aware of their family's full financial situation. If you are currently married, you should be actively involved in major financial decisions and have access to all financial records.

Plan ahead at work. When you have confidence in your financial status—if you have a strong financial plan in place and you've built up savings and emergency funds—you may be more confident asking for what you deserve at salary-review time.

Back up your claims for a raise. Support your proposal by documenting any significant accomplishments you've made over the past year, particularly ways you've contributed to your company's financial success.

Explore your career options. Employees tend to earn salary increases when they switch jobs. Exploring job opportunities every few years could confirm whether your current salary is appropriate, give you a reason to negotiate for a raise at your current job, or inspire you to make a career leap.

Don't share your salary. Telling a recruiter your current salary or earning history can result in a lowball offer. When applying for jobs, you can see what comparable positions in your area pay by reviewing popular salary websites. Keep in mind that you can always ask for more after the initial salary offer.

Factor in the cost of caring for others. The National Alliance for Caregiving and AARP 2020 report on caregiving in the U.S. found that 61% of caregivers are female, and that female caregivers are less likely to work while providing care. When working on a financial plan with your advisor, incorporate the cost of childcare, including after-school support if your work hours require it. Consider long-term care and disability insurance coverage so that you won't have to leave the workforce to care for a spouse experiencing a health event.

Revisit your beneficiaries. A change in marital status triggers the need to see who will inherit your assets. At least 26 states have statutes that automatically revoke beneficiary designations naming a spouse in the event of a divorce—which may not be what you want. You may also need to revisit who you have designated to help with your estate, such as your attorney-in-fact, health care proxy, and executor.

Tips for New Divorcées and Widows

In addition to understanding your own retirement benefits, you should know about any spousal benefits you may be entitled to. If the marriage lasted for at least 10 years and you haven't remarried, you could be eligible for half of your ex-spouse's social security benefit amount at their full retirement age, even if they're not actively collecting it. The total amount you are owed and when you should start collecting will depend on your age, your personal earnings, your life expectancy, and whether you remarry.

For retirement benefits, you would need at least a 10-year work history to qualify for your own social security benefits. To maximize these benefits, you may want to delay when you start collecting until age 70, depending on your life expectancy.

Tips for Women Who Are Single by Choice

If you don't have a spouse or a child, an estate plan can ensure that your wealth is effectively distributed. Generally, this means that assets would go to a parent or sibling if there's no surviving spouse or child and more remote family members if there are no surviving parents or siblings. If you have a large extended family, you may prefer that your wealth go to nieces, nephews, and charities.

Taking Charge

Whether it’s by necessity because of a life change or you just want to become more involved in your finances, you can take charge of your financial security by staying fully informed of your options—and the many considerations that go into solidifying your current financial situation, maximizing retirement benefits, and properly planning your estate.

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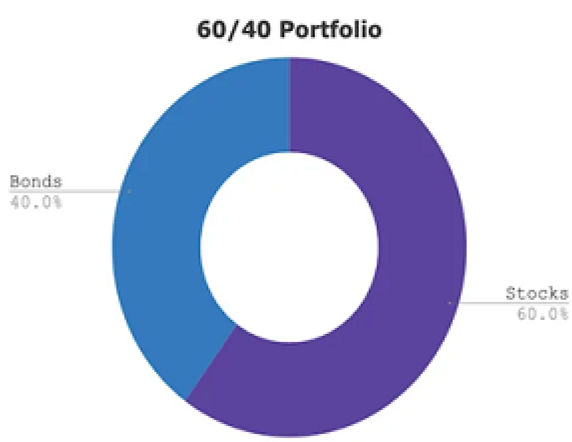
Your Portfolio Health: Wait. What? The Fixed Income

Holdings in my Portfolio are Losing Value?

By Sarah Ruef-Lindquist
Originally Submitted to the Pen Bay Pilot Wave

Many investors have a chunk of their portfolio in a fixed income allocation; that could include domestic and international corporate bonds of varying grades of credit quality and domestic municipal or government issued bonds. Very often "balanced" allocation strategy will anticipate a lower level of volatility and a lower growth in value potential through bonds, while anticipating the yield bonds generate providing income to investors that may be higher than many dividend-producing stock.



An often-used allocation strategy is 60/40: 60% stock, 40% fixed income. Extolling the virtues of this approach [on their website](), Vanguard reminds us:

Portfolio outcomes are primarily determined by investors' strategic asset allocations. And this is good news because, with proper planning, investors with balanced portfolios should be well-positioned to stay on course to meet their goals, instead of swerving to avoid bumps in the road.

Since the Great Recession, in a low interest-rate environment, yields on US bonds have been more modest, reducing the amount of income investors can expect from them. However, they have tended to provide a cushion in overall value dips, because of their lower level of volatility in comparison to the holdings within the stock allocation.

But now rates are rising; the Federal Reserve is working to reduce the growth of inflation by making money more expensive to borrow than it has been in over a decade, curbing borrowing, and that's pushing rates higher.

Higher rates are great for new bonds and their investors…but it can depress the relative value of existing bonds with lower rates. In the current market downturn in the first quarter of 2022, what investors are seeing is not only a dip in the value of their stock portfolios after reaching historic high values, but a decline in the value of their bond portfolios as well. That's painful. Many are scratching their heads.

Two things to remember about bonds: their relative value may be lower, but they still have their yield, or income. Secondly, when a bond matures, it almost always pays the investor back the original value of the bond, even though it's value on paper has reflected a lower "market value" during the period of rising rates. The more patience an investor can exercise over their bond portfolio in these times, the greater the reward.

As you monitor the health of your investment portfolio with your financial and investment advisor, be sure your allocation strategy fits your own unique goals and risk tolerance.

Image source.

Will 2021 Turn Out to be Another Record-Breaking Year for Philanthropy in the U.S.? What About 2022?

By Sarah Ruef-Lindquist, JD, CTFA

We still have a few months to wait before GivingUSA releases its report on charitable giving for 2021. That usually happens in mid-June. Anecdotally, many organizations are reporting that despite the significant continuing challenges of the pandemic for their operations and fundraising efforts, 2021 was actually a great year.

After record-breaking 2020 charitable giving statistics were reported in 2021, Fidelity reported as of last fall what they were learning and expected about giving trends in 2021. They reported 9 out of 10 surveyed in the summer of 2021 indicated they planned to give as much or more than they had given to charity in 2020.

The report is based on a study conducted in July and August 2021 by Artemis Strategy Group, an independent research firm, on behalf of Fidelity Charitable. The study examined the effect of COVID-19 on giving behavior among 701 adults in the U.S. who donated at least $1,000 to charity in 2020.

You may recall, GivingUSA had reported a record **$471 billion** in 2020, representing a more than 5% increase over 2019 giving.

In November 2021, AFPGlobal.org reported that giving was on pace in the first half of 2021 compared to the same period in 2020. Through the work of the Fundraising Effectiveness Project, the report includes an increase in new donors as well as an increase in total gifts. "The estimated number of donors increased by 0.7% in the first half of 2021 compared to the same period in 2020, while the total amount of money given has risen by a projected 1.7%."

A growth trend in giving would seem to be continuing in 2022.

In an article dated February 15, 2022, the Chronicle of Philanthropy reported a 9% increase in giving for 2022 over 2021. This would represent the largest increase in giving since 2012. The report was produced by Blackbaud Institute, a division of Blackbaud, and surveyed roughly 9000 charitable organizations.

Did your organization have a good fundraising year in 2021? We hope so. And we hope 2022 is full of success, too. And to the extent you are having success raising funds for the long-term, through current gifts to endowment or deferred giving, we'd like to know and offer our services tailored to non-profits to support your board's fiduciary role stewarding those gifts. Learn more at AllenIF.com.

Tax-Smart Planning Strategies

Minimizing your annual income taxes requires a regular review of your overall financial position. With tax season underway, now is the perfect time to evaluate some effective strategies that could help reduce your current and future taxes. Tax planning should be a year-round activity, so it’s wise to revisit these topics regularly in the context of your current financial situation.

Manage Your Retirement Savings Accounts

If you have the means, maximizing your annual contribution to a retirement account will give your savings strategy a healthy boost. But it’s important to understand how the different types of available retirement accounts differ. The most common options include:

Employer-sponsored retirement plans. Employer-sponsored 401(k) plans allow your investments to grow with taxes deferred until you take money out through a withdrawal or distribution. Some employers offer both a traditional 401(k) plan and a Roth 401(k); if yours does, you should be aware of the different rules for taxes on contributions and distributions:

- With a **traditional 401(k) plan**, contributions are made with pretax dollars, thus reducing your current income and, possibly, your current-year taxes. Choosing this option may make sense if you want to reduce your income in the current year and/or expect to be in a lower tax bracket in retirement. Required minimum distributions from the account begin at age 72.
- With a **Roth 401(k) plan**, contributions are made with after-tax dollars, and the account’s accumulated funds have the potential to be distributed tax-free and penalty-free in retirement, if certain IRS requirements are met. This could make sense if you’re not looking for a current-year tax deduction and anticipate being in a higher tax bracket in retirement. Under circumstances known as “triggering events” (one example is termination of

employment), Roth 401(k) funds could be rolled tax-free into a Roth IRA and eliminate the need to take required minimum distributions from those assets. Required minimum distributions begin at age 72 in Roth 401(k) accounts but are not required in Roth IRAs.

Retirement plans for the self-employed. If you run your own business, you can use an individual 401(k), SEP (Simplified Employee Pension), or SIMPLE (Savings Incentive Match Plan for Employees) plan to shelter income.

IRAs. If you qualify, you may also be able to make a contribution to an IRA. As of 2020, there is no age limit on making regular contributions to traditional or Roth IRAs. Different rules for taxes on contributions and distributions do apply:

- With a **traditional IRA**, contributions are generally made with pretax dollars, thus reducing your current income and, possibly, your current-year taxes. Eligibility for making tax deductible contributions to an IRA depends on your tax filing status, modified adjusted gross income (MAGI), and whether you're covered by an employer-sponsored retirement plan. Required minimum distributions begin at age 72.
- With a **Roth IRA**, contributions are made with after-tax dollars, and the account's accumulated funds have the potential for tax-free and penalty-free distribution in retirement. Eligibility for contributing to a Roth IRA is based on your tax filing status and MAGI. There is no requirement for minimum distributions when you reach a certain age.
- **Converting traditional IRA assets to a Roth IRA** is another strategy to consider. Generally, this move makes the most sense for those who anticipate being in a higher tax

bracket in retirement than they are now. Eliminating the need to take required minimum distributions is a meaningful benefit.

Maximize Your Deductions

Some deductible items, such as medical expenses and charitable contributions, must meet a specific threshold before deductions can be taken. If you fall short of the minimum in a particular year, you might be able to time future discretionary expenses or charitable contributions such that you exceed the threshold one year but not the next.

Review Form 1040

Examining your 1040 could help you spot opportunities for making investments that provide greater after-tax savings. Pay special attention to the Taxable Interest, Tax-Exempt Income, and Dividend Income sections of the form.

Consider Tax-Advantaged Municipal Bonds

Municipal bonds are an excellent tax-advantaged investment, especially for people who are in a high income tax bracket or have moved into a higher tax bracket after a promotion or career change. Interest earned on municipal bonds is exempt from federal income taxes and, in most states, from state and local taxes for residents of the issuing states (although income on certain bonds for particular investors is often subject to the Alternative Minimum Tax).

Plan for Capital Gains and Losses

To determine when to recognize capital gains or losses, you will have to know whether you want to postpone tax liability (by postponing recognition of gains) or to recognize capital gains or losses during the current year. If the gains will be subject to a higher rate of tax next year (because of a change in tax bracket), or if you cannot use capital losses to offset capital gains, you could recognize capital gains this year.

Don’t Forget Life Insurance

Life insurance can provide liquidity to pay estate taxes and could be an attractive solution to other liquidity problems, such as those family-owned businesses, large real estate holdings, and collectibles may face. Structured properly, life insurance proceeds can pass free of income and estate taxes.

Putting the Pieces Together

These are just a few of the most common tax planning strategies. We can work with you and your tax professional to assess your current situation and determine which options could be beneficial to you. Making proactive, tax-smart decisions throughout the year is an essential piece of overall financial planning.

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Municipal bonds are federally tax-free but may be subject to state and local taxes, and interest income may be subject to federal alternative minimum tax (AMT). Bonds are subject to availability and market conditions; some have call features that may affect income. Bond prices and yields are inversely related:

when the price goes up, the yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity.

2022 Estate and Gift Tax: Looking Back, and an Update

There were many who predicted significant changes to the current federal estate and gift tax law in the past year, but nothing has materialized as of this writing. Many predicted that the amount that would be subject to tax would be greater due to a lowering of the exemption amount, and that the rates would be higher. It just didn’t happen. Indeed, the exemption is going up.

According to the IRS website and Kiplinger, the federal estate tax exemption is going up for 2022. The amount is adjusted each year for inflation. It’s important to remember that the current law will sunset at the end of 2025, at which point the amounts and rates will revert to those in effect in 2016, which are significantly lower, meaning more estates will be taxable.

2022 Federal Estate Tax Exemption

Generally, when you die, your estate is not subject to the federal estate tax if the value of your estate is less than the exemption amount. For people who pass away in 2022, the exemption amount will be $12.06 million ($11.7 million for

2021). For a married couple, that comes to a combined exemption of $24.12 million.

This is also known as the Basic Exclusion amount. It is as high as it's ever been. The annual exclusion for gifts was $11,000 (2004-2005), $12,000 (2006-2008), $13,000 (2009-2012) and $14,000 (2013-2017). In 2018, 2019, 2020, and 2021, the annual exclusion is $15,000. Again, in 2022, the annual exclusion is $16,000.

Federal Estate Tax Rate

Only a small percentage of Americans die with an estate worth $12 million or more. But for estates that do, the federal tax bill is significant. Most of the estate's value is taxed at a 40% rate.

According to Kiplinger, the first $1 million in an estate is taxed at lower rates – from 18% to 39%. That results in a total tax of $345,800 on the first $1 million, which is $54,200 less than what the tax would be if the entire estate were taxed at the top rate. Once the estate's value exceeds $1 million, the excess is taxed at the 40% rate.

That's the picture from a federal perspective. What about Maine? Yes, Maine has an estate tax, with an exemption level of $5.87 million. The Estate tax rates range from 8% – 12%, which is one of the lowest rates among the states that have an estate tax. There is no tax on heirs, so no Inheritance tax.[1]

Federal Gift Tax

Gifts can be taxable if they are big enough. First, there's the exclusion of what you don't need to report each year. This would apply to gifts to any one individual in the calendar year by a taxpayer. You could double the amount for gifts from a married couple filing jointly. The current exclusion is $16,000. It has increased over the years. Those gifts that exceed the exclusion Amount are reported and cumulatively are not taxable as gifts until they exceed a total of the exemption amount during your lifetime, currently over $12 million.

By the time 2026 rolls around, we will likely hear much more about estate and gift taxes. The current law is slated to sunset December 31, 2025 and go back to 2016 levels January 1, 2026.

All taxpayers should consult with their own professional tax and legal advisors when making estate and significant gifting plans to take their unique facts and circumstances into account.

[1] https://www.kiplinger.com/retirement/inheritance/601551/states-with-scary-death-taxe

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Fixed Income Investment

Strategies: 4 Ways to Mitigate Inflation Risk

Fixed income investments (also known as bond investments) play an important role in a well-diversified portfolio, potentially serving as downside protection in times of uncertainty. Still, as of this writing in January 2022, some fixed income investors are understandably cautious about the risk of rising consumer prices on their portfolios. The primary concern is the potential for interest rates to increase.

Rising interest rates put pressure on fixed income investments by causing prices for existing bonds to fall. This is known as interest rate risk. Although there is no way to completely avoid the impact of higher inflation on fixed income, the risk can be mitigated. Let's review four strategies that could help manage fixed income portfolio risk.

1) Reduce Interest Rate Risk

Why is interest rate risk a primary concern for many bond investors? After all, a bond's original terms do not change within the interest rate environment. If you hold a bond to maturity, you're entitled to receive the full principal amount, plus any outstanding accrued interest.

If you want to sell a bond before maturity, however, the situation is different. Prior to maturity, most existing bonds sell at a premium or a discount to the full principal amount, plus accrued interest. If interest rates have risen since a bond was issued, the price of the bond typically declines.

So, what strategies can we employ to potentially reduce the interest rate risk of a bond portfolio? Adjusting the duration of your bond portfolio is one of the first methods to consider. Duration is a measure of the sensitivity of the price of a bond to a change in interest rates. Notably, duration is *not* the same thing as a bond’s term to maturity.

For instance, a bond with a duration of 5 would be expected to see its price fall 5 percent if interest rates were to rise by 1 percent. In comparison, a bond with a duration of 2 would be expected to see a 2 percent decline if interest rates were to rise by 1 percent.

To guard against a rise in rates, it might help shorten the duration of your bond portfolio. It’s important to note, though, that shortening duration alone may not ensure that a portfolio is adequately protected while generating a reasonable return.

2) Increase Credit Spread Risk

A credit spread is the difference in interest rates between a U.S. Treasury bond and another type of bond of the same maturity but different credit quality. Typically, bonds with a lower credit quality offer higher interest rates than U.S. Treasury bonds. The risk for investors is that a bond with a lower credit quality comes with a higher risk of default. Default means a bond has missed an interest or principal payment.

So, how does this strategy work? Most importantly, investors must consider whether the potential benefit of receiving a higher interest rate is worth the higher risk of default. If this strategy is implemented, the fixed-income portion of a portfolio is oriented away from U.S. Treasury bonds and toward investments that increase credit spread risk. This category includes corporate bonds, mortgages, and high-yield investments. High-yield investments have lower credit ratings than investment-grade corporate bonds, although they typically offer higher yields.

These investments are a step out on the risk spectrum, but the risk is concentrated on credit spread risk. Corporate bonds, mortgages, and high-yield investments are typically driven by improving economic fundamentals. As a result, they could benefit from rising rate environments that see faster economic growth. Given the reasons for the recent inflation increase—namely reopening efforts and economic recovery—spread-oriented investments may make sense for some investors.

It's important to note that corporate bonds, mortgages, and high-yield investments are not immune to the negative effect rising interest rates may have on prices. Nonetheless, the move from primarily interest rate-sensitive to spread-oriented investments could help lower the interest rate risk of a fixed income allocation. These investments could potentially provide a reasonable yield by shifting the risk exposure toward credit.

3) Consider Foreign Exposure

It might also be beneficial to shift a portion of your fixed income allocation to international bonds. Several factors can affect global interest rates, but the economic fundamentals for individual countries primarily drive their respective rates. Given the diverging global economic recovery, tactical opportunities may arise in developed and emerging international markets.

Including international bonds diversifies a bond portfolio away from U.S.-based interest rate risk. Accordingly, this strategy could help dampen price volatility for a fixed income allocation when interest rates are rising.

As with spread-oriented investments, this strategy involves some interest rate risk. Still, diversifying exposure to include foreign interest rate risk may help lower a portfolio's overall volatility.

4) Employ Yield Curve Positioning

Another strategy to consider is focusing on holding a diversified portfolio of fixed income investments spread across the yield curve. What is the yield curve? A yield curve is a line that plots the interest rates (also known as the yield) of bonds having equal credit quality but different terms to maturity.

When analysts consider interest rate risk, most hypothetical scenarios envision an environment where rates shift in parallel across the yield curve. In reality, however, this scenario rarely happens.

The interest rates for bonds usually depend on whether it’s a short-term or long-term bond. Short-term bonds are generally more sensitive to changes in the Federal Reserve’s monetary policy. On the other hand, interest rates for a long-term bond are driven more by the outlook for long-term economic growth. Given this fact, holding a bond portfolio with a diversified range of maturity dates could help protect against changes in monetary policy that increase interest rates.

Bond laddering is a strategy that can help diversify interest rate risk exposure across the yield curve. Instead of buying bonds that are scheduled to come due during the same year, purchasing bonds that mature at staggered future dates should be considered. This can allow for more regular reinvestment of income and helps insulate a portfolio against yield changes in a certain segment of the market.

Need Additional Information?

For assistance in evaluating your options, please contact me. We’ll talk through these strategies for managing the potential outcomes and risk of your fixed income portfolio.

Bonds are subject to availability and market conditions; some have call features that may affect income. Bond prices and yields are inversely related: when the price goes up, the yield goes down, and vice versa. Market risk is a consideration if sold or redeemed prior to maturity.

A bond ladder, depending on the types and amount of securities within the ladder, may not ensure adequate diversification of your investment portfolio. While diversification does not ensure a profit or guarantee against loss, a lack of diversification may result in heightened volatility of the value of your investment portfolio.

The main risks of international investing are currency fluctuations, differences in accounting methods; foreign taxation; economic, political or financial instability; lack of timely or reliable information; or unfavorable political or legal developments.

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Debt Management in a Healthy Financial Plan

Wise debt management is a key component of healthy and effective financial planning. Today, most people carry some amount of debt to finance a degree or buy a home or car. Other debts may be incurred out of necessity or as part of an investment plan. Whatever your reasons for taking on debt, you should understand the different types of debt and their risks. This knowledge will help you manage debt wisely as part of your overall financial plan.

Primary Types of Debt
The two primary types of debt are:

- **Unsecured debt.** Credit card balances and student loans are common types of unsecured debt. Typically (without considering pandemic-related relief), missing one or more of your monthly payments on unsecured debt could result in late fees, increased interest rates, damage to your credit score, and/or action by a collection agency. A delinquent borrower can also be sued by the lender.
- **Secured debt.** With secured debt, the lender has an interest in an asset, such as a home mortgage or car loan. In the event of default, the lender has a legal right to repossess its interest in the asset.

Risks to Consider

The distinction between unsecured and secured liabilities should not lead to conclusions about when debt is appropriate. Credit card balances and car loans, for example, are rarely part of a healthy financial plan, in part because assets acquired this way are subject to rapid depreciation. Furthermore, because unsecured debt is convenient, it can get out of control quickly. So, avoiding credit card debt and car loans is advisable unless you have a strict budget and the discipline to stick to it.

Other types of debt, such as mortgages and business loans, could increase your long-term net worth, provided the asset value increases or remains more valuable than the loan balance. In these cases, you have less risk of the debt getting out of control because secured loans can be fully satisfied by disposing of the secured asset. But the obvious downside is you could lose your home, car, or other valued asset. As a result, even if secured debt has lower interest rates and more favorable terms, you should carefully weigh the potential downsides before taking it on.

How Much Debt Can You Afford?

With any type of loan, lenders decide what level of risk they will accept when making a lending decision. Factors they consider include credit history and the prospective borrower's debt-to-income ratio. But the lender's main concern is answering the question, "What is the maximum amount we can offer this borrower with the least likelihood they will default on the loan?"

It's important to realize that a lender's willingness to loan funds does *not* mean accepting the loan is prudent. When analyzing your ability to carry debt, consider your budget carefully and focus on the following:

Liquidity. If you suddenly lost your job, would you have enough cash to cover your current liabilities? It's a good idea to maintain an emergency fund to cover three to six months of expenses. But don't go overboard. Guard against keeping more than 120 percent of your six-month expense estimate in low-yielding investments. And don't let more than 5 percent of your cash reserves sit in a noninterest-bearing checking account.

Current debt. Your total contractual monthly debt payments (i.e., minimum required payments) should come to no more than 36 percent of your monthly gross income. Your consumer debt—credit card balances, automobile loans and leases, and debt related to other lifestyle purchases—should amount to less than 10 percent of your monthly gross income. If your consumer debt ratio is 20 percent or more, avoid taking on additional debt.

Housing expenses. Generally, your monthly housing costs—including your mortgage or rent, home insurance, real estate taxes, association fees, and other required expenses—shouldn't amount to more than 31 percent of your monthly gross income. If you're shopping for a mortgage, keep in mind that lenders use their own formulas to calculate how much you can afford. These formulas may not work for your situation. For a mortgage insured by the Federal Housing Administration, your housing expenses and long-term debt should not exceed 43 percent of your monthly gross income.

Savings. Although the standard recommended savings rate is 10 percent of gross income, your guideline should depend on your age, goals, and stage of life. You should save more as you age, for example, and as retirement nears, you may need to ramp up your savings to 20–30 percent of your income. Direct deposits, automatic contributions to retirement accounts, and electronic transfers from checking accounts to savings accounts can help you make saving a habit.

Debt Pay-Down Strategies

If you're carrying debt that exceeds what's normal for the average household, we can discuss strategies to pay it down as aggressively as is reasonable. Here are two approaches to consider:

- **Snowball debt elimination.** This involves identifying lowest-balance debts and targeting them for priority repayment while making only the minimum payment on other items of debt. Once the lowest balance is paid off, move on to paying down a new set of lowest-balance debts.
- **Debt avalanche.** This strategy advocates paying off debts with the highest interest rate first. This makes mathematical sense but requires discipline and the ability to stick with the process.

Debt and Your Investment Plan

In some cases, you may believe that holding debt, such as a mortgage or margin investments, is beneficial. This idea is usually based on the potential for your investments to outperform the interest rate on the applicable loan and the investment opportunities you could explore with that extra liquidity.

For instance, you might believe that paying off a mortgage or margin loan could represent a tax-free return on investment essentially equal to the interest rate paid on the debt. But you would enjoy a significant net benefit only if the rate of return substantially exceeds the cost of the interest. And that result cannot be guaranteed. So, though this strategy could potentially yield a monetary benefit, the overall risk involved is significant.

Need Additional Information?

We'll talk through these strategies for managing debt and explore other planning solutions that can help you stay or get on track to financial security. By carefully approaching debt with a detailed plan on how much to borrow and how to repay your debt, you can reach your goals and support your long-term financial success.

More Generous Savings Provisions for Retirement Planning in 2022

By [Sarah Ruef-Lindquist, JD, CTFA]
In 2022, retirement contribution limits for 401(k) and other types of defined contribution plans (403(b), 457 and Thrift Savings plans) will increase $1,000 to $20,500 for those under age 50, and for those 50 and older to $27,000.

This amount is $1,000 higher than it has been and is great news for retirement savers. Taking advantage of plans that allow taxpayers to make pre-tax contributions that then are treated as tax-deferred until withdrawn in retirement is a smart part of retirement planning.

Pre-tax contributions reduce your tax liability because the amount of the contribution is deducted from gross income. The retirement account is not taxed on any income or capital gain as long as funds remain in the IRA, with the exception of amounts withdrawn. Those are taxed as ordinary income. Taxes can be delayed to age 72, when annual minimum distributions are required to begin. Then income tax is due on withdrawals.

There is no change in the contribution limit for Individual Retirement Accounts (IRA's). That amount remains at $6,000 for those under age 50, and $7,000 for those age 50 and older. The amount has not changed since 2019.

Other recent legislation allows people to continue to make contributions after age 70, as long as they have income of at least the amount of the contribution.

More workers may now qualify for Roth IRA contributions, based on income phaseouts that are rising $4,000 ($129,000 – $144,000) for single filers and rising $6,000 ($204,000 – $214,000) for married filing jointly.
Be sure to check with your tax preparer or financial advisor about how any changes in the laws regarding retirement savings and planning impact your particular situation.