

# Financial WISDOM



WINTER 2023



## INVESTMENT CORNER

### LOOKING AHEAD TO OPPORTUNITIES IN THE NEW YEAR

In 2022, the S&P 500 Index of the largest U.S. companies declined 18%, the worst annual return since the Financial Crisis in 2008. Bonds, as measured by the Bloomberg U.S. Aggregate Bond Index, also fell losing 13% in 2022—the worst annual decline for bonds since 1976.

The decline in equity prices was widespread as nine of the 11 S&P 500 sectors experienced negative returns in 2022. The Communication Services sector fared the worst losing nearly 40%. The top performing sector was Energy, which had its best year on record, climbing nearly 66% as a combination of tight supplies and rising demand boosted the bottom line of many energy-related companies.

Macroeconomic events took a toll on the markets in 2022. During the year, investors were confronted with inflation levels not seen in 40 years, rapidly increasing interest rate hikes, geopolitical tensions, mid-term elections, and the continued recovery from the COVID-19 pandemic. Seemingly, any negative headline news resulted in heightened volatility and would drive the market lower. The following days accounted for nearly all of the S&P 500's decline in 2022:

**The five worst trading days in 2022 accounted for 94% of the S&P 500's decline for the entire year.<sup>2</sup>**

September 13	-4.3%
May 18	-4.0%
June 13	-3.9%
April 29	-3.6%
May 5	-3.6%

Source: BusinessInsider.com, DataTrek

### HAPPY 2023!

According to a recent survey, over half of people who made New Year's resolutions for 2023 indicated they plan to prioritize their finances.<sup>1</sup>

January is a great time to make financial resolutions. Setting attainable goals is valuable in tracking progress and enhancing overall financial wellbeing.

In our Newsletter, we provide some ideas for attaining these goals. Following a recap of the 2022 market and economy, we share retirement plan contribution limits, four common misconceptions about Social Security, and how long-term care can impact retirement savings.

Let 2023 be your year toward financial success.

### MARKET UPDATE

Performance as of December 31, 2022

	1 YR	3 YR*	5 YR*
Dow Jones	-6.86%	7.32%	8.38%
S&P 500	-18.11	7.66	9.42
Nasdaq	-32.54	6.10	9.67

\*Average annual return. Past performance is no guarantee of future results. Source: Morningstar.

Notably, after more than a decade in an ultra-low interest rate environment, the Federal Reserve increased rates seven times in 2022 to combat persistent inflation, raising the federal funds rate between 25 and 75 basis points each time. By the end of the year, the fed funds rate reached its highest level in 15 years.<sup>3</sup>

Higher interest rates may be having the desired effect of lowering inflation. As the year ended, inflation levels appear to be moderating. Over the 12 months ended in June 2022, the Consumer Price Index peaked at 9.1% and began a downward trajectory to 7.1% by November 2022.<sup>4</sup> According to the Census Bureau, inflation has been affecting mid-income households the most as the goods and services they tend to purchase, including cars and gasoline, rose the most in price.<sup>5</sup>

### MARKET REBOUNDS AFTER DOWN YEARS

After a volatile year, it's important to put the 2022 market performance in context to broader history.

**1 Rebounds after significant declines.** Since 1939, the S&P 500 Index has declined 25% or more only 12 times from peak to trough. Over a 1-year period following a 25% drawdown, the market declined only once, losing 7% during the 2008 Financial Crisis. On average, the market gained over 21% in the year following a 25% drawdown.

**2 More positive market years than negative ones.** Over the past 50 years through 2022, annual returns for the S&P 500 have been positive approximately 80% of the time.



## HAVE YOU MADE YOUR 2022 AND 2023 CONTRIBUTIONS YET?

With the start of a new year, tax preparation time is upon us. It's also an opportune time to review your contributions to your 401(k), 403(b), Individual Retirement Account (IRA) and Health Savings Account (HSA).

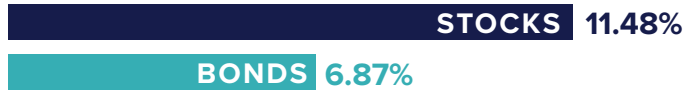
Keep in mind that to offset 2022 income, a contribution to your Traditional IRA and HSA account must be made prior to the tax filing deadline.



**3 Considerable long-term returns.** Over a 40-year period as of the end of 2022, the average annual returns of the S&P 500 and the Bloomberg U.S. Aggregate Bond Index were over 11% and nearly 7%, respectively. While short-term returns can fluctuate, stock and bond returns have been significant for long-term investors.

### ANNUAL AVERAGE RETURNS

Over a 40-year period as of 12/31/2022



Source: Morningstar

### AN OPPORTUNITY IN 2023 TO TAKE ADVANTAGE OF ATTRACTIVE PRICING

For long-term investors, look to 2023 as an opportunity to put some money to work at attractive prices. Enjoy tax-advantaged investing by contributing to your own Individual Retirement Account (IRA), a Spousal IRA for a non-working spouse, or a Custodial IRA for your child or grandchild. You could also consider increasing your contribution to your Health Savings Account and company-sponsored retirement plan. Talk to your Jemma Financial Advisor to help determine the best course of action to take while the market is trading at a lower level.



Benefit Limit	2023	2022
401(k) & 403(b) Elective Deferrals	\$22,500	\$20,500
401(k) & 403(b) Catch-up Elective Deferrals	\$7,500	\$6,500
Traditional & Roth IRA Contribution Limits	\$6,500	\$6,000
Traditional & Roth IRA Catch-Up Limits	\$1,000	\$1,000
Health Savings Accounts (HSA) Contribution Limits	Single: \$3,850 Family: \$7,750	Single: \$3,650 Family: \$7,300
Health Savings Accounts (HSA) Catch-Up Limits	\$1,000	\$1,000

## FOUR COMMON MISCONCEPTIONS

Social Security benefits can be complex and are often misunderstood—potentially leading to costly mistakes. Be prepared when claiming your benefits—here are four common misconceptions about Social Security.

**NOT TRUE** Social Security is running out of money or will become bankrupt.

The U.S. Social Security Administration cannot run out of money. According to the Social Security Administration, even if Congress allowed the trust fund reserves to deplete, continuing income would cover 80% of the scheduled benefits in 2035 and 75% of scheduled benefits in 2093. Further, over the past 84 years since the creation of Social Security, scheduled benefits have always been paid in full.<sup>6</sup>

Don't let this misconception prompt you to claim Social Security earlier than you need it. A recent survey revealed that nearly 32% of respondents would take benefits before age 70 because they are concerned that Social Security may run out of money and/or stop making payments.<sup>7</sup>

**NOT TRUE** Full retirement age is 65.

While full retirement age was 65 for many years, in 1983, Congress passed a law to gradually raise the age. Now full retirement age is based on the year you were born. If you were born between 1943 and 1954, your full retirement age is 66, if you were born between 1955 and 1959, it's somewhere between ages 66 and 67 and if you were born in 1960 or later, it's 67.

**NOT TRUE** Social Security is a retirement savings account.

Many people think of Social Security as being an integral part of their retirement planning strategy. The Social Security Retirement benefit is not meant to replace your entire income, only a portion of your income in retirement. The average monthly benefit is \$1,550<sup>8</sup> which



only equates to roughly \$18,600 a year. Other saving methods such as retirement plans and personal savings are needed in conjunction with Social Security to create a secure source of retirement income.

**NOT TRUE** You don't pay taxes on Social Security benefits.

The majority of Americans who receive benefits will pay Federal income tax on up to 50% or even 85% of their benefits.<sup>9</sup> The Internal Revenue Service (IRS) rules state:

**If a single filer's combined income<sup>10</sup> is...**

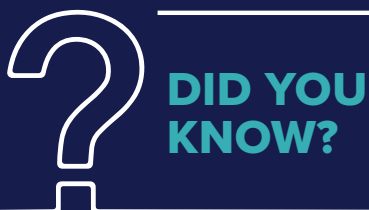
- between \$25,000 and \$34,000 - up to 50% of your benefits may be taxable.
- more than \$34,000 - up to 85% of your benefits may be taxable.

**If joint filers' (you and your spouse) combined income is...**

- between \$32,000 and \$44,000 - up to 50% of your benefits may be taxable.
- more than \$44,000 - up to 85% of your benefits may be taxable.

If you fall below these thresholds, you will not pay any Federal tax on your benefits.

When it comes to Social Security benefits or any of your retirement savings, consider your Jemma Financial Advisor as your resource to help you determine a financial path that works best for your long-term goals.



In 2022, an average of **66 million** Americans per month received a Social Security benefit, totaling over **\$1 trillion** in benefits paid during the year.

Social Security benefits represent about **30% of the income** for older Americans.

## CONSIDER YOUR LONG-TERM CARE NEEDS

When saving for retirement, many of us envision spending our money on our future beach home or round-the-world travel. However, most underestimate healthcare expenses as we grow older. In fact, approximately 70% of those aged 65 and older require a form of long-term health care at some point during their lives.<sup>11</sup>

Often, long-term care is needed when someone has an accident, illness or chronic condition and cannot perform the basic activities of living including eating, bathing, dressing, and transferring (getting in/out of a chair or bed).

**With the aged 65 or older segment of the population set to grow larger than the younger than age 18 segment by 2040<sup>12</sup>, the need for long-term care will only grow.**

### WHAT TYPE OF CARE IS NEEDED?

No one wants to envision themselves needing around-the-clock care and losing their independence. However, the first step is determining the type of care that is required and balancing that need with available funds to pay for the care.

**1 Private home care:** Hands-on assistance with daily activities such as bathing, eating, dressing, etc.

**2 Adult day health care:** Planned activities that may include personal care, transportation and meals provided by caregivers.

**3 Assisted living facility:** Personal care provided in a residential facility for those who do not need care 24 hours a day.

**4 Nursing home:** Residential facility that provides a higher level of care that is provided on-site, 24 hours a day.

As your loved ones age, it is important to recognize the signs of cognitive decline as early as possible. If someone cannot perform two activities of daily living without help, some form of long-term care assistance may be needed.

### THE IMPORTANCE OF PLANNING AHEAD

Long-term care could be needed for years and can be expensive, draining your hard-earned retirement savings. A common misconception is that Medicare or health insurance will cover these costs. Medicare Part A helps pay for short-term inpatient stays (up to 100 days) in hospitals, skilled nursing facilities, partial home care and hospice care. However, it does not cover a stay in a long-term care facility or the cost of custodial care.<sup>13</sup>

### WHAT ARE YOUR OPTIONS FOR PAYING FOR LONG-TERM CARE?

**1 Pay for it out of pocket:** A potential viable option for those who have a large nest egg saved for retirement.

**2 Get help from loved ones:** Family or friends can provide care. In the long run, this extra expense may cause unwanted stress that could negatively affect everyone in the family. New research revealed that nearly half of family caregivers experienced at least one financial setback.<sup>14</sup>

**3 Long-term care insurance:** Long-term care policies work similar to other forms of insurance where you pay premiums and make claims if you need the covered services.

### SPEAK WITH A JEMMA FINANCIAL ADVISOR

Long-term care planning is not only complex but also emotional. It's important to have these discussions early when you or a family member is still in good health. Creating a roadmap of long-term care decisions may make transitions easier.

Whether it's setting aside money in a separate account or determining a preferred window to purchase an insurance policy, your Jemma Financial Advisor can guide you through the process.

1. Numerator, New Year's Resolutions 2023 Consumer Sentiment Survey, December 2022 2. Markets Insider, Just 5 trading days accounted for 94% of the S&P 500's decline in 2022, December 2022 3. Federal Reserve Bank of St. Louis, December 2022 4. U.S. Bureau of Labor Statistics, December 2022 5. The Wall Street Journal, Inflation Takes Biggest Bite From Middle-Income Households, December 2022 6. Social Security Administration, Social Security Financing and Benefits: Myths vs Facts, 2019 7. Schroders US Retirement Survey Results - 2022 8. Social Security Administration, Monthly Statistical Snapshot, November 2022 9. Social Security Administration, Income Taxes And Your Social Security Benefit 10. Combined income = your adjusted gross income + nontaxable interest + ½ of your Social Security benefits. 11. SingleCare, Long-term care statistics 2022, February 2022 12. Massachusetts Institute of Technology (MIT), MassMutual®, Connecting with Your Next Generation Retiree Clients about Long Term Care Planning, 2022 13. Custodial care is non-medical care that helps individuals with basic everyday activities. 14. AARP, AARP Research Shows Family Caregivers Face Significant Financial Strain, Spend on Average \$7,242 Each Year, June 2021

### Past performance is no guarantee of future results.

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