# Financial WISDOM

JEMMA FINANCIAL SERVICES

FALL 2023

INVESTMENT CORNER

## DESPITE A 2-MONTH DROP, THE S&P 500 RISES 13% YEAR-TO-DATE

Over the third quarter of 2023, the major equity indices declined in value. The S&P 500, an index of the 500 largest companies in the U.S., lost 3% and the technology-heavy Nasdaq Index decreased nearly 4%. However, year-to-date returns continue to be strong, with the S&P 500 rising 13% and the Nasdaq climbing 27% through the end of September.

The Magnificent Seven companies—the seven mega-cap tech stocks that drove nearly all of the stock market's return earlier this year—have experienced weaker performance. For example, in September, shares of Apple, Microsoft, Alphabet (the parent company of Google), Amazon.com, NVIDIA and Tesla all fell; only Meta (the parent company of Facebook) recorded a gain.

Bonds came under pressure as the Bloomberg US Aggregate Bond Index declined 3% in the third quarter and fell into negative territory for the year with a return of -1.2%. Bond prices and yields move opposite of one another, so investors saw the yield on the 10-year Treasury, a key benchmark for borrowing costs on mortgages and other loans, climb to 4.5%, a 16-year high, at the end of September. For shorter-term two-year Treasurys, yields rose to over 5.1% in the last few days of the third quarter.[1]

What has driven the weak returns in stocks and bonds? Many factors have weighed on investor sentiment: the potential Federal government shutdown, strikes across the U.S., including the Writers Guild of America and the United Auto Workers, and interest rates that will likely be higher for longer. Since March 2022 through July 2023, the Federal Reserve has raised rates 11 times, bringing the benchmark rate from around zero to close to 5.5%.[2] At its recent meeting in September, the Fed indicated that there may be one more interest rate increase in 2023 based on economic growth expectations.

*Continued on page 2.*

## HAPPY FALL!

Autumn is a season of change. This year, let it serve as a reminder to review any major changes in your life that could impact your overall financial plan.

We hope you enjoy our Fall issue of Financial Wisdom. In it, find a market and economic update and articles on how life events could affect taxes, workplace retirement plan advantages, and funding rising health-care costs.

Here's to sweater weather, apple cider and pumpkin spice everything!

## MARKET UPDATE

Performance as of September 30, 2023

| | 1 YR | 3 YR* | 5 YR* |
|---|---|---|---|
| Dow Jones | 19.18 | 8.62 | 7.14 |
| S&P 500 | 21.62 | 10.15 | 9.92 |
| Nasdaq | 26.11 | 6.60 | 11.41 |

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

Climbing interest rates mean higher mortgage rates for homebuyers. In fact, mortgage rates hit a 23-year high at the end of September, with the average 30-year fixed mortgage rising to 7.31%. These rates erode purchasing power with fewer homebuyers as many are reluctant to sell their homes and lose their current, often far lower, mortgage rate.

The latest inflation data points to why the Fed may keep rates elevated. In August 2023, the Consumer Price Index rose 3.7% over the past year, partly due to rising oil prices.[3] Even though inflation has been cooling over the past several months, it remains above the Fed's 2% target.

Regardless of how investors react to macroeconomic events, focus on making sure your investment portfolio aligns with your short-, mid- and long-term goals. While stocks have historically offered the best return over the long term compared to bonds and cash, higher yields in other investment options today may offer an opportunity to earn meaningful returns with potentially less risk—depending on your goals. A Jemma Financial Advisor can help you determine what makes sense for your investment portfolio.

### 30 YEAR U.S. MORTGAGE RATES


*Source: Freddie Mac, retrieved from FRED, Federal Reserve Bank of St. Louis.*

BIG EVENTS IN YOUR LIFE

## HOW YOUR TAXES COULD BE AFFECTED

### GET MARRIED

Review and adjust your withholding amounts based on your combined household income.

Update your Form W-4 to your employer.

Report a name change to the Social Security Administration and your employer prior to filing your taxes.

### HAVE A CHILD OR ADOPT

Review and adjust your withholding amounts due to the child and adoption credits.

### BUY A HOUSE

You can deduct home mortgage interest on the first $750,000 ($375,000 if married filing separately) of the total loan amount.

### GET DIVORCED

Update your withholding amounts based on your individual income and filing status.

Update your Form W-4 to your employer.

Report a name change to the Social Security Administration and your employer prior to filing your taxes.

### RETIRE

You may need to make estimated payments to the IRS throughout the year, although some income sources can automatically withhold a certain percentage of your distributions for tax purposes.

THE ADVANTAGES OF

# YOUR WORKPLACE RETIREMENT PLAN

Did you know the average 401(k) balance in 2022 was approximately $113,000?[4]

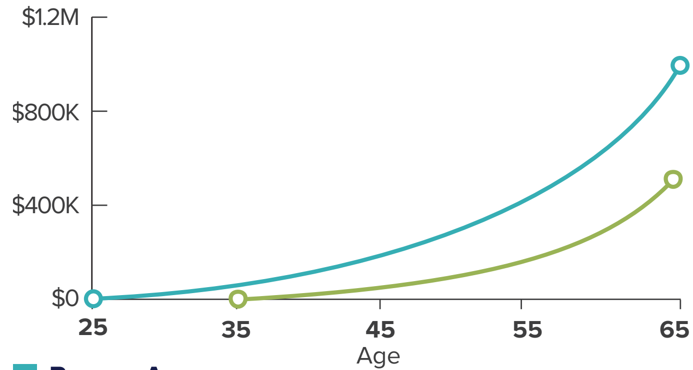
Defined contribution plans, such as 401(k) and 403(b) plans, have become an important vehicle for retirement savings for many people because of their numerous advantages. For one, it's an easy and consistent way to save because contributions are automatically deducted from the employee's pay.

If your company offers a defined contribution retirement plan, it makes a lot of sense to participate as soon as your company allows. Here's why:

1. **Reduce your current tax burden.** Contributions into a Traditional 401(k) or 403(b) plan are made on a pre-tax basis and will not be taxed until the money is withdrawn in retirement. Every dollar contributed into your account will reduce your taxable gross income, resulting in less money owed in income taxes for that year.

2. **Grow your wealth by starting early.** The earlier you can enroll and start contributing to your company's retirement plan, the better. The greatest asset you have when saving during your career is time. As you can see in the chart to the right, the sooner you start saving, the more time your money has to grow, thanks to compounding returns.

## THE POWER OF SAVING FOR RETIREMENT EARLY




**Person A**
Starting Age: **25**
Estimated Amount at Age 65: **$1,069,546**

**Person B**
Starting Age: **35**
Estimated Amount at Age 65: **$506,127**

| | Person A | Person B |
|---|---|---|
| Contribution | $5,000/year | $5,000/year |
| Time of Contribution | 40 Years | 30 Years |
| Total Contribution | $200,000 | $150,000 |
| Hypothetical Rate of Return | 7% | 7% |
| **Total at Retirement** | **$1,069,546** | **$506,127** |

*This is a hypothetical example that assumes a 7% annual return and not intended to reflect the actual performance of any specific investment. Earnings are pre-tax, and may be subject to income tax when distributed. Source: NerdWallet*

## KEY PLAN FEATURES

Not every employer's plan offers the same retirement plan features. Therefore, it's important to get to know your specific plan. A few key features to look for include:

**An Employer-Matching Program:** This is a powerful employee benefit where your company matches your contributions up to a certain amount (dollar or percentage). This match is essentially free money when vested that can be added toward your retirement savings. For example, an employer may match 100% of your contributions up to 3% of your compensation.

**Roth 401(k):** This feature allows contributions to be made with after-tax dollars and you do not pay Federal tax on qualified withdrawals in retirement. A Roth 401(k) can be an effective tax-planning tool if you expect your tax bracket to be lower now than in retirement. Unlike a Roth IRA, Roth 401(k)s do not have an income limit for contributions.

**Target-Date Funds:** These funds are often the default investment option if you are automatically enrolled in a 401(k) or 403(b) plan. They can serve as a maintenance-free retirement vehicle without having to make ongoing investment decisions. Depending on the target year, the fund's asset mix automatically adjusts and becomes more conservative over time.

## DON'T DELAY GETTING STARTED

Need help understanding features in your workplace retirement plan? A Jemma Financial Advisor can provide guidance on the role that employer plans play in your overall retirement plan.

RETIREMENT PLANNING

# FUNDING HEALTH-CARE EXPENSES

Health care is one of the largest expenses in one's retirement years. Although most people know they will have health-care costs after they retire, it can be hard to quantify. While individual medical support varies, it is estimated that by age 65, a healthy couple will spend close to $13,000 on health care annually.[5]

Take steps to prepare for this future expense whether you are close to retirement or just starting your career.

1 **Take advantage of a Health Savings Account (HSA):** This account is available if you have a high-deductible health plan (HDHP). An HSA offers deductible contributions, tax-free investment growth and tax-free withdrawals for qualified medical expenses. Unlike Flexible Savings Accounts (FSAs), unused contributions into an HSA are always yours and, therefore, will be carried over to the next year to allow for account growth.

2 **Understand the impact of Medicare:** Make sure you sign up for Medicare when you are first eligible. Not enrolling during the Initial Enrollment Period may cause a gap in your coverage and you may have to pay a lifetime late enrollment penalty. The Initial Enrollment Period lasts for seven months, starting three months before you turn 65 and ending three months after the month you turn 65.

3 **Don't forget about long-term care:** Long-term care is needed when someone has an accident, illness or chronic condition and cannot perform the Activities of Daily Living (ADLs), such as eating, bathing and dressing. On average, monthly nursing home care can cost around $7,500 to $9,000.[6]

## DID YOU KNOW?

Almost 3 in 5 adults are worried about finding affordable health insurance to supplement Medicare.[7]

## RETIREMENT PLANNING SHOULD INCLUDE HEALTH CARE

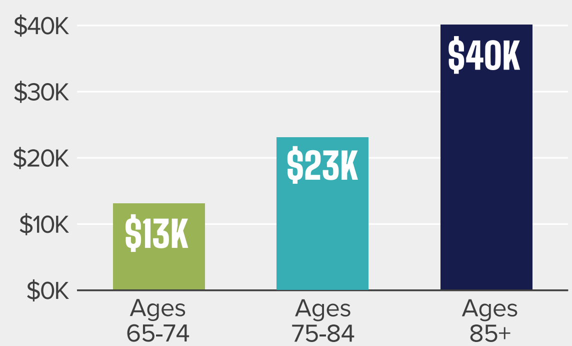
As you get closer to retirement, it's important to evaluate and familiarize yourself with Medicare Parts A, B and D as well as Medicare Advantage and supplemental coverage. For those who are still working and not enrolled in Medicare and your employer offers an HDHP, now is the time to open or add to an existing HSA. Even if you switch jobs, your HSA is portable and you can continue to contribute to your HSA as long as you are still enrolled in an HDHP.

No matter if you are just starting your career and looking to open or contribute to an HSA, or you are close to retirement and need help evaluating your health-care options, a Jemma Financial Advisor can help you make informed decisions.

## RISING HEALTH-CARE COSTS

Several factors cause health-care costs to rise each year and inflation is one of the main drivers. This impact may be felt in the coming years when it comes time for health-care plans to manage price increases during contract renewal periods. Other factors include an aging population, rising wages, post pandemic labor shortages and the resuming of medical procedures and visits.

### Annual Spending on Health Care for a Healthy Couple




*Source: HealthView Services*

1 CNBC.com. 2 Federal Reserve. 3 U.S. Bureau of Labor Statistics. 4 How America Saves 2023, Vanguard. 5 RBC Wealth Management, 2022. 6 Consumer Affairs. 7 Harris Insights & Analytics LLC.