Financial Strategies

News You Can Use!!

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78%

Percentage of Americans age 65 and older who own their own home. Of these, about two-thirds own their home outright and one-third have a mortgage.

Source: U.S. Bureau of Labor Statistics, 2024 (2023 data)

Boomer Homeownership and Retirement

With the youngest baby boomers turning 60 in 2024, a survey from mortgage agency Freddie Mac looked at the relationship of boomer homeownership to retirement and aging. Here are some of the findings. All percentages apply to baby boomers (born 1946 to 1964), who hold about half the nation's home equity, amounting to more than $17 trillion.

Source: Freddie Mac, December 19, 2024

Life Insurance Might Help During Turbulent Economic Times

During times of economic uncertainty and when the stock market is volatile, life insurance may be a useful tool to consider.

Income protection

Finances that were intended to provide support for you and your family could take a hit due to stock market volatility. In addition, rising costs of goods and services might eat into more of your income and savings. If you die, life insurance can be used to help replace some of the savings you may have lost during turbulent economic times. The tax-free death benefit may be used to help provide income to your spouse and family, pay off mortgages and loans, meet tax liabilities, or pay for college expenses.

Portfolio diversification

Certain types of permanent life insurance have a cash value option that can be beneficial during times of economic uncertainty. Some policies offer minimum interest rate guarantees (subject to the financial strength and claims-paying ability of the issuer) that may provide an alternative to the unpredictability of the stock market.

Wealth accumulation

Cash value life insurance may allow all interest and earnings on the policy's accumulations to grow tax deferred. You might even be able to take withdrawals from the cash accumulation of the life insurance policy. Any withdrawal you make will typically be tax-free up to your basis (i.e., premiums paid) in the policy. Because any earnings grow tax deferred while inside the policy, they will be subject to income tax when you withdraw them. Withdrawals coming out of your policy are generally treated as basis first. Be aware that surrender charges may also apply when you withdraw from your policy, even if you withdraw only up to your basis. One way to help circumvent this and still access your policy's accumulations is to take out a policy loan from the insurance company, using the cash value in the policy as collateral. The amount you borrow is generally not treated as taxable income as long as you repay the loan, and there are no surrender charges because you're not actually withdrawing your money. But you'll have to pay interest on the loan, which is not tax deductible.

Living benefits

Life insurance could help replace lost funds should you become disabled, need long-term care, or face a terminal illness. For example, if you are terminally ill, you might be able to receive a portion of the death proceeds from your life insurance before you die in order to pay necessary expenses. Some life insurance policies include a special rider that allows you to accelerate your life insurance death benefit if you need long-term care. Other riders may be added to a life insurance policy that could help in the event you become disabled and are unable to work.

Comparison of Whole Life and Term Life Insurance

	Whole Life	Term Life
Earnings grow tax deferred	Yes	No
Cash value may be withdrawn tax-free	Within limits	No
Policy loans allowed	Yes	No
Policy loan proceeds received tax-free (Note: Special tax rules apply if policy is later cancelled)	Yes	No
Cash value growth guaranteed by insurance company	Yes	No

Optional benefit riders are available for an additional fee and are subject to contractual terms, conditions and limitations as outlined in the policy and may not benefit all investors. Any payments used for covered long-term care expenses would reduce (and are limited to) the death benefit or annuity value and can be much less than those of a typical long-term care policy. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Any guarantees are subject to the financial strength and claims-paying ability of the insurance issuer. Loans and withdrawals from a permanent life insurance policy will reduce the policy's cash value and death benefit, could increase the chance that the policy will lapse, and might result in a tax liability if the policy terminates before the death of the insured. Additional out-of-pocket payments may be needed if actual dividends or investment returns decrease, if you withdraw policy cash values, or if current charges increase.

How Has SECURE 2.0 Affected 401(k) Plans?

Since its inception in 1980, the 401(k) plan has become a key tool in helping Americans build wealth. In fact, the number of people who have become millionaires through their 401(k) plans reached 537,000 in 2024, a 27% increase from 2023.[1] The SECURE 2.0 Act, passed in 2022, introduced new features designed to make 401(k)s even more appealing to workers. The following features are optional for employers, and while some have been adopted, others have yet to gain traction.

Emergency access

In most cases, early withdrawals from 401(k) plans are subject to ordinary income tax and an additional 10% early distribution penalty. However, there are certain exceptions to the penalty, including several introduced by SECURE 2.0:

- Withdrawals of up to $1,000 for personal or family emergencies
- Distributions of up to $22,000 for expenses related to a federally declared natural disaster
- Withdrawals of up to the lesser of $10,500 (in 2025) or half the account balance for an account holder who is the victim of domestic abuse
- Distributions to a terminally ill employee

In addition, SECURE 2.0 ushered in a new option to help employees save for emergencies, known as a pension-linked emergency savings account (PLESA). Also called a "sidecar" account, a PLESA allows workers to make Roth-type contributions, which means they are not tax deductible, but withdrawals are tax-free. Employees can save up to $2,500 each year (or a lower limit, as determined by the employer), and money is invested in lower-risk vehicles. Employees are allowed to make withdrawals at least once per month, generally for any reason.

SECURE 2.0 also authorized employers to allow workers to "self-certify" their need for hardship withdrawals, which are distributions permitted in certain situations if the employee has limited financial resources. Previously, employees were required to prove they had an "immediate and heavy financial need" for the money. (Note that hardship withdrawals and $1,000 emergency withdrawals are different types of distributions.)

Super catch-ups

Catch-up contributions, which allow employees age 50 and older to contribute more to their 401(k) plans than younger workers, have existed since 2001. Thanks to SECURE 2.0, employers may now allow workers who reach age 60 to 63 during the year to contribute even more through what have become known as "super catch-ups." In 2025, all 401(k) plan participants can contribute up to $23,500. Employees age 50 to 59 and 64 and older can contribute an additional $7,500, and those who reach age 60 to 63 can contribute an additional $11,250. These limits are indexed to inflation, which means they are periodically increased.

Student loan match

This program is designed to help alleviate the risk that some workers may be unable to save for retirement while paying off student debt. Through the student loan match, employers can make matching contributions into a retirement savings account based on an employee's student loan payments.

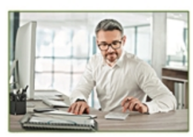
Roth match

With this option, employees can have their employer matching and non-elective contributions invested on a Roth, rather than a pre-tax, basis. The benefit is that, under current law, this feature can help workers build a source of potentially tax-free retirement income, provided certain conditions are met. A Roth distribution is tax-free if it is made after the account has been held for at least five years and the employee reaches age 59½, dies, or becomes disabled.

401(k) Appreciation Day

Percentage of retirement plan participants who agree with the following statements:

89%
"My plan account helps me think about the long term, not just my current needs."



87%
"Payroll deduction makes it easier for me to save."

48%
"I probably wouldn't save for retirement if I didn't have a retirement plan at work."

Source: Investment Company Institute, January 2025

Which features are being adopted?

The new exceptions to the 10% penalty, the self-certification for hardship withdrawals, the super catch-ups, and the Roth matches are among the new plan features employers are adopting. On the other hand, employers have been slow to launch PLESAs and offer the student loan match. Industry observers indicate it may be due to the technology and/or added administrative burden these features require. In the case of the student loan match, some plan sponsors have noted that not enough employees have a need for the benefit.[2]

1) MarketWatch, February 27, 2025

2) Plansponsor.com, February 3, 2025; PSCA.org, January 21, 2025; Alight, 2025

Unpacking the Real Limits on Unlimited PTO

About 7% of U.S. companies offered unlimited paid time off (PTO) as an employee benefit in 2024, up from just 1% in 2014.[1] When companies adopt unlimited PTO policies, there is no specific cap on the number of paid vacation and/or sick days employees can take, although requests for time off are typically subject to a manager's approval.

With traditional benefit programs, long-time employees accrue more paid vacation days than newer hires. On average, private-industry employees in the United States can take 11 vacation days after one year of service, which rises to 15 days after five years, 18 days after 10 years, and 20 days after 20 years.[2]

Surveys confirm that unlimited PTO is a coveted workplace benefit that could be a powerful recruitment tool for companies that offer it.[3] It's easy to understand why the prospect of unlimited PTO is appealing, but there are also some potential pitfalls to consider.

A perk for employees and employers

Many employees appreciate the freedom to travel and take time off when needed for their own well-being or to help care for children or other family members. Thus, when companies have unlimited PTO policies that truly provide flexibility, it can help companies keep productive employees they don't want to lose.

One drawback for employees with unlimited PTO is that there is no time bank of unused vacation days to cash out when they leave their jobs or get laid off. This amounts to significant savings for employers that have fluid workforces or decide to reduce their headcounts.

Employee perceptions and fears

Data shows that employees with unlimited PTO take an average of 16 days off a year, compared with 14 days taken by those with specific caps.[4] Few employees abuse unlimited PTO policies, likely for the same reasons that many employees don't use up the vacation days in their time banks. Some people don't feel comfortable asking for time off if they are worried about keeping up with a heavy workload or if they will have to ask co-workers to cover their duties. And they might fear being judged negatively by their peers or managers, especially if they suspect it could impact their performance ratings and job security.

Company culture matters

Some start-ups have a reputation for "all-in" cultures in which taking time off is discouraged or can be especially stressful. The reality is that there are plenty of work environments that make it hard for employees to pursue work-life balance.

When their PTO is uncapped, employees must figure out for themselves how much time they can really afford to take. As always, the answer likely depends on company and industry norms and the individual worker's standing and responsibilities.

1) *The Wall Street Journal,* January 22, 2025; 2) U.S. Bureau of Labor Statistics, September 2024; 3–4) Empower Study, 2024
