

TWM Monthly Newsletter

April 2021

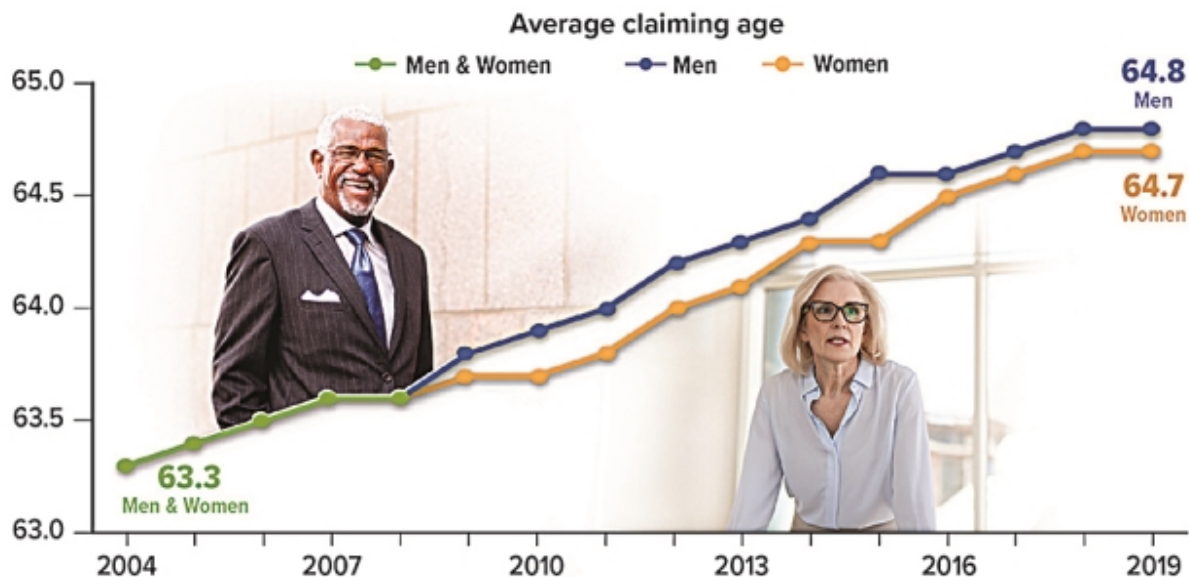
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TRADITION
WEALTH MANAGEMENT

More People Delay Claiming Social Security

The average age for claiming Social Security retirement benefits has been steadily rising. Older Americans are working longer, in part because full retirement age is increasing incrementally from 66 to 67. A worker may begin receiving Social Security retirement benefits as early as age 62, but monthly benefits will be permanently reduced by as much as 30% if claimed before full retirement age — a strong incentive to wait.



Source: Social Security Administration, 2020

Money Market Funds in a Low Rate Environment

After pushing interest rates gradually upward for three years, the Federal Reserve dropped the benchmark federal funds rate to near zero (0%–0.25%) in March 2020 to help mitigate the economic damage caused by COVID-19.¹ The funds rate affects many short-term interest rates, including the rates on money market mutual funds, which were already low to begin with.

The average monthly yield on 30-day taxable money market funds dropped steadily after the Fed's move and was down to 0.03% by the end of 2020, equivalent to an annual percentage rate of about 0.36%.² Considering the rock-bottom rates on some short-term investments, this is higher than might be expected but well below the rate of inflation.³ Even so, investors held about \$4.3 trillion in money market funds.⁴

What's the appeal with such a low return? Stability and liquidity.

Cash Alternatives

Money market funds are mutual funds that invest in cash alternatives, usually short-term debt. They seek to preserve a stable value of \$1 per share and can generally be liquidated fairly easily.

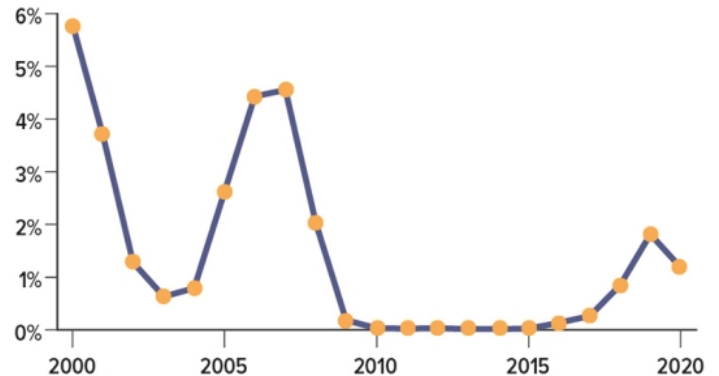
Money market funds are typically used as the "sweep account" for clearing brokerage transactions, and investors often keep cash proceeds in the fund on a temporary basis while looking for another investment. In a volatile market, it's not unusual to see large shifts into money market funds as investors pull out of riskier investments and wait for an opportunity to reinvest.

Short Term vs. Long Term

Money market funds can also be useful to keep emergency funds or other funds that might be needed quickly, such as a down payment on a home. If you are retired or near retirement, it might make sense to use money market funds for near-term expenses and/or to hold funds in a traditional IRA for required minimum distributions, so you do not have to sell more volatile assets.

For a long-term investing strategy, however, money market funds are a questionable choice. You might keep some assets in these funds to balance riskier investments, but low yields over time can expose your assets to inflation risk — the potential loss of purchasing power — along with the lost opportunity to pursue growth through other investments. This could change if interest rates rise, but the Fed projects that the federal funds rate will remain in the 0% to 0.25% range through the end of 2023.⁵

Annual Returns on Money Market Mutual Funds



Source: Refinitiv, 2021, 30-Day Money Market Index — All Taxable, for the period 12/31/1999 to 12/31/2020. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in such a fund.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1, 5) Federal Reserve, 2020

2) Refinitiv, 30-Day Money Market Index — All Taxable, for the period 12/31/2019 to 12/31/2020

3) U.S. Bureau of Labor Statistics, 2021

4) Investment Company Institute, 2021 (data as of 12/29/2020)

Should You Convert Your Term Life to Permanent Life Insurance?

Term life insurance provides life insurance coverage for a specific time period (the term). The face amount of the policy is paid if you die during the term of the policy. When you live longer than the term of coverage, nothing is paid, as there is no cash surrender value. Permanent life insurance provides protection for your entire life, regardless of your age or health, as long as you pay the premium to keep the policy in force.

Usually, term life insurance costs less than permanent life insurance for the same amount of death benefit. Term policies often offer the opportunity to convert to permanent insurance. Here are some reasons why you might consider converting your term life insurance to permanent life insurance.

Your Health Has Changed

Since term life insurance is temporary coverage that will end after a number of years, your circumstances may have changed, warranting life insurance coverage for the rest of your life. Converting term life insurance to permanent life insurance does not require additional underwriting. This allows you to extend your life insurance coverage for the rest of your life without going through a medical exam. This fact is particularly important if your health has changed since the time you purchased the term policy.

Your Financial Circumstances Have Changed

You may have purchased term life insurance because it fit better into your budget. Now you may be able to afford the higher premium cost of a permanent life insurance policy that better fits your insurance needs.

You May Want Cash Value

Most permanent life insurance provides for the accumulation of cash value. Part of the premium goes toward the cost of the death benefit and related policy costs; another part goes toward building cash value. The interest and earnings grow tax deferred until you withdraw the funds and may be part of the income-tax-free death benefit when you die. With most cash-value life insurance, you can borrow against or take withdrawals from your cash-value account, although policy loans and withdrawals can reduce the death benefit.

You Want Funds to Pay for Final Expenses

Final expenses of a last illness and memorial and funeral costs could take quite a bite out of your assets, or worse, the assets of the loved ones you leave behind. You may want to convert some or all of your term life insurance to permanent insurance that can be used to pay for final expenses.

Questions to Ask

If you're thinking about converting your term life insurance to permanent, here are some questions to ask your insurer:



- Can my policy be converted?
- When must I decide to convert?
- What are my options? What types of permanent policies are available? Can I do a partial conversion?
- What will the premium cost?

You Want to Leave a Legacy

The tax-free death benefit of a life insurance policy may be a cost-effective way to leave an inheritance to your loved ones. Permanent life insurance can be available no matter when you die, as long as you've kept up with the premium payments.

You May Owe Estate Taxes

Federal estate taxes are owed on estate assets that exceed the federal estate tax exclusion (\$11.7 million in 2021). In addition, several states have their own separate estate taxes and exemptions. Those you leave behind can use the death benefit of your life insurance to pay some or all of any applicable estate taxes after your death.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Withdrawals of the accumulated cash value, up to the amount of the premiums paid, are not subject to income tax. Loans are also free of income tax as long as they are repaid. Loans and withdrawals from a permanent life insurance policy will reduce the policy's cash value and death benefit, and 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. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Five Tips to Follow When Applying for a Mortgage

The housing market during the coronavirus pandemic has certainly been notable. Historically low interest rates resulted in record homebuying, even as housing prices escalated.¹

Fortunately, the mortgage industry has been able to keep up with the pace of the real estate market by utilizing already existing technology. Homebuyers can search for lenders, compare interest rates, and apply for mortgages online. In addition, mortgage lenders are able to do alternative appraisals, perform safe home inspections, and conduct closings electronically.

Even though applying for a mortgage is much easier these days, navigating the world of mortgages — especially for first-time homebuyers — can be complicated. As a result, you'll want to keep the following tips in mind.

Check and maintain your credit. A high credit score not only may make it easier to obtain a mortgage loan but could potentially result in a lower interest rate. Be sure to review your credit report for inaccuracies. You may have to take steps to improve your credit history, such as paying your monthly bills on time and limiting credit inquiries on your credit report (which are made every time you apply for new credit).

Shop around. Be sure to shop around among various lenders and compare the types of loans offered, along

with the costs and rates associated with those loans. Consider each lender's customer service reputation as well.

Get pre-approved for a loan. In today's hot housing market, it's essential to have a mortgage pre-approval letter in hand before making an offer. Obtaining a mortgage pre-approval letter lets you know how large a loan you can get. However, this isn't necessarily how much you can afford. Be sure to examine your budget and lifestyle to make sure that your mortgage payment — principal and interest as well as property taxes and homeowners insurance — is within your means.

Review your down-payment options. Though lenders prefer a down payment of 20% or more, some types of home loans allow down payments as low as 3%. A larger down payment can help you obtain a lower interest rate, potentially avoid paying for private mortgage insurance, and have smaller monthly payments.

Read the fine print. Before you sign any paperwork, make sure that you fully understand the terms of your mortgage loan and the costs associated with it. For example, if you are applying for an adjustable-rate mortgage, it's important to be aware of how and when the interest rate for the loan will adjust.

1) MarketWatch, September 5, 2020

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