



# The Mosaic Financial Group LLC

Your Wealth Management Partner

## Retirement Realities Are Grim For Many Americans

At age 65, only 22% of American retirees possess the family and financial resources to cover high-intensity care for at least three years, and 27% cannot afford any help at all. The remaining half of older adults, if they are stricken by a prolonged health crisis, lie somewhere in between not being able to afford any care and having a long-term safety net.

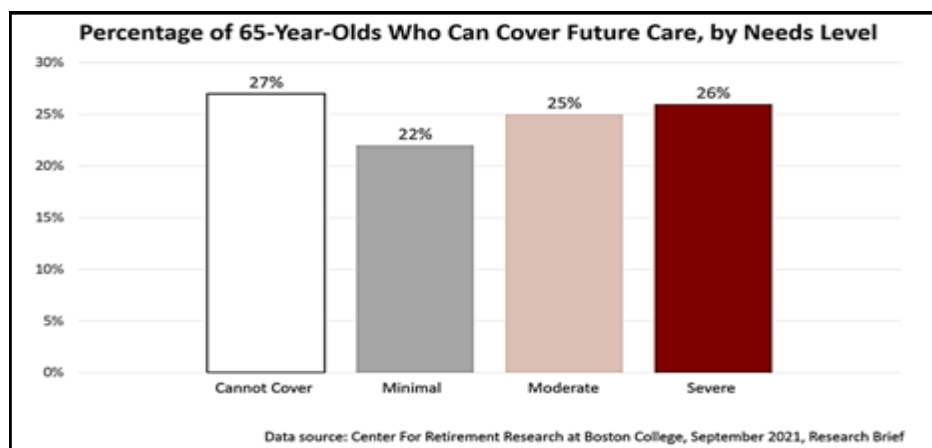
These are the grim conclusions of The Center for Retirement Research (CRR) at Boston College. Part of a consortium of research groups funded since 2018 by the U.S. Social Security Administration, CRR's research paints a gloomy picture of the retirement struggle most Americans are facing.

In a September 2021 research brief, CRC examined the resources available to 65-year-olds to meet their needs for

minimal, moderate, as well as severe care needs.

According to CRC, about a third of America's retirees lack the resources for even minimal care. In addition, only a fifth would be able to afford care for a severe personal health crisis, such as a stroke or chronic disease. The problem is expected to raise enormous social and political issues in the years ahead as baby boomers age. However, even if you have family support and enough money to care for a severe health event requiring long-term care, proper planning requires answering some difficult personal financial questions:

- Can you afford to self-insure in your old age?
- Have you done the financial math to ensure you could pay for a severe-care event through age 85 or 90?



different long-term services and support. CRC's analysis considered "informal" care from family members, as well as care paid for out of a retiree's pocket, and it categorized older adults by their ability to afford to pay for

- Have you paid for long-term care insurance that has grown more expensive or now provides lower benefits than it used to?

One of the solutions for managing

*(Continued on page 4)*

## A Financial Setback Can Darken Your Investment View

The unusual financial economic events of the last couple of years have caused great financial disappointment for some Americans. Since early 2020, individuals have been battered by one economic crisis after another: the pandemic, Covid bear market plunge in stocks, partial shutdown of the economy, the loss of 20 million jobs, inflation, and soaring energy prices have caused widespread financial losses.

Investments are a way to satisfy emotional goals. When you suddenly are disappointed and go through the process of giving up on an important life goal, it's an emotional experience and not just a financial event.

Losing the money to give your children a down payment on their first home, enduring a divorce or business failure -- losing wealth -- is a deeply personal and bad emotional experience.

Giving up on a retirement dream home, losing the money to pay for a grandchild's education, or suddenly lacking the wherewithal to make a bequest to charity brings to the surface feelings of failure, shame, and regret.

After experiencing a financial setback, feeling fear or anguish can darken your view and lead to making poor investment decisions. It can also make you feel impoverished. We encourage clients to acknowledge and address the emotional part of experiencing a financial loss.

If you want to talk about a financial loss or plan a recovery, please don't hesitate to speak with us about it.

## Year-End Tax Planning Reminders

It's time to think about year-end tax planning, and it is especially important this year. 2022 is an unusual year for tax planning. Not only has the stock market been volatile, creating strategic opportunities, but new rules about distributions from IRAs and federally qualified retirement plans (QRPs) – such as 401(k), 403(b) and defined benefit plans – became effective. In addition, the newly-enacted Inflation Reduction Act also has created some new tax incentives and credits that you might want to act on by the end of the year.

Sweeping new rules on distributions



IRAs & QRPs

from IRAs and federally qualified retirement plans (QRPs) were released February 23, 2022, and went into effect retroactively on January 1, 2022. The new rules affect required minimum distributions from IRAs, defined contribution plans, defined benefit plans, and annuity contracts. They affect distributions commencing during an employee's lifetime, and at death before the required beginning date for distributions, as well as rollovers and

transfers from IRAs and QRPs. This is a complicated area of retirement and estate tax planning. This is an early warning, in case you made some changes in your IRA in 2022, are contemplating making a change, or are unsure about how your beneficiary choices can be optimized to your personal tax situation.



STOCK VOLATILITY

A bear market began on June 13, when the Standard Poor's 500 stock index closed more than -20% lower than its all-time closing high on January 3. By the close of the market on June 16, 2022, the S&P 500 stock price bottomed with a loss of about -23%. Then, a bear market summer rally broke out, cutting losses by about half. In September, however, stocks sharply declined again. The stock market is likely to be volatile for the rest of 2022, as the Federal Reserve continues to raise lending rates and slow down the economy to fight inflation. In periods of sharp ups and downs, it's wise to consider taking a loss or realizing gains on taxable assets.

President Joseph R. Biden, Jr.,

signed the Inflation Reduction Act into law on August 16, 2022. The new law contains tax breaks that you might



INFLATION REDUCTION ACT

benefit from, including a 10-year extension of rebates for buying an electric car, as well as a 30% clean energy tax credit for homeowners in the form of rebates of up to \$14,000 on the purchase of energy efficient water heaters and air conditioning equipment. You may want to consider these tax incentives if you are thinking of adding solar panels to your home or making other energy efficient improvements before the end of the year. The Act, as originally contemplated, would have included other tax changes that did not make their way in the final legislation signed into law. Some of those provisions could yet be adopted before the end of 2022.

It's wise not to wait until December to start thinking about year-end strategic tax moves because some tactics may take time. Please check our financial planning updates to keep apprised as the end of the year approaches. ●

## Financial History Is Crucial To Investing

The extreme financial effects of the COVID-19 pandemic seemed unprecedented to most investors. Over the past two years, Americans witnessed a sudden stop financial crisis in March 2020, the injection of nearly \$10 trillion of monetary and fiscal stimulus within a matter of months, and an unanticipated burst of inflation that caught even the Federal Reserve off guard. The truth, however, is that these events seem anomalous only because many historical parallels have disappeared from our collective memory. In fact, there are no living Americans who recall the two most relevant events —

the onset of World War I in July 1914 and the post-World War I/Great Influenza inflation of 1919-1920.

Famed economist John Kenneth Galbraith once said, “for practical purposes, the financial memory should be assumed to last, at maximum 20 years.” But this principle applies only if you lack the will to self-educate on events that transpired beyond this boundary, or work with a properly schooled professional.

“Those who delve into the more distant past discover that what seems unprecedented in the moment has almost always occurred before — often multiple times,” says financial

historian Mark Higgins, CFA, CFP®. “More so than prior financial crises, the COVID-19 pandemic revealed the importance of carefully studying financial history.”

Students of the 1919–1920 inflation were unsurprised by the onset of Post-COVID-19 inflation, according to Mr. Higgins, whose forthcoming history of the U.S. financial system, “Becoming an Enlightened Investor,” (Greenleaf Book Group) is expected to arrive on Amazon in spring 2023.

“Investors who recall the policy mistakes of the Federal Reserve in the late 1960s understand why the Fed

## 20 Year-End Planning Tips To Slash Your 2022 Taxes

This is an unusual year-end tax planning season. The pace of reform of federal tax laws has increased in the last several decades and accelerated since the pandemic struck.

In addition, simplification seems like a long-forgotten goal in recent tax reform legislation. For example, in February 2022, rules implementing the SECURE Act, which was signed in to law December 2019, changed a highly technical part of the Internal Revenue Code affecting distributions from federally qualified retirement plan (QRPs) and IRAs, and will change retirement funding and estate planning decisions of millions of Americans.

Meanwhile, stocks were up and down in recent months and may stay volatile through the end of 2022, which creates opportunities to realize gains and offset them by taking losses.

To make things simpler, here are 20 reminders about ways to cut your federal tax bill by December 31, 2022.

1. Have you fully funded your IRA or 401(k) for 2022 to save for retirement and lower your tax bill?

2. If you expect to have a taxable estate in 2026, when the \$12.06 million individual estate tax exclusion is slashed to \$6.2 million (\$12.4 million for married couples), consider making gifts to children and others by December 31.

3. If you expect to have a taxable

estate after 2025, consider setting up a trust to transfer assets from your estate to reduce taxes, avoid probate, direct assets to be inherited on terms you specify, and provide your heirs protection from creditors, liens and divorce settlements.

4. If you are edging into a higher tax bracket this year, have you considered ways of bunching charitable donations and other itemized deductions into 2022?

5. If you're funding college tuition and other qualified education expenses, can you time tuition and other payments to bunch deductions and optimize your itemized deductions in 2022 or 2023?

6. If you own a traditional IRA, is this a good time to consider converting it to a Roth IRA, which could provide tax-free income and other tax benefits to your heirs?

7. If you experienced a financial loss due to a property-casualty or theft, or if you paid large property tax or medical bills in 2022, it may be deductible and help you qualify to itemize deductions.

8. Consider donating to charity appreciated assets, like publicly traded securities, real estate, or an interest in a private business, to lower capital gain taxes and do good.

9. Have you cleaned out your garage, and storage spaces to decide what you could give to charity that may

have significant fair market value and be written off against your taxable income as an itemized deductions?

10. If you're planning to sell your business and have no buyer lined up yet, consider donating some of the proceeds from the sale to a charity to reduce gains taxes.

11. If you are due a bonus by the end of the year, determine whether it will push you into a higher tax bracket and take steps to reduce income.

12. If you are due for a bonus and can delay it until next year to reduce your 2022 taxable income, remember you have until April 17, 2023 to make a contribution to an IRA.

13. Depressed stock prices present an opportunity to consider selling a concentrated stock position and reinvesting the proceeds in a diversified group of asset classes.

14. Did you realize an investment loss in 2022, and can you apply the loss against a gain to reduce your total capital gains taxes?

15. Because up to \$3,000 of long-term capital losses fully offsets up to \$3,000 of ordinary income, is there an investment loss you can realize?

16. If your employer sponsors a flexible spending account, maximize it by paying for health insurance co-pays or deductibles, and qualified medical expenses, which you pay with pre-tax dollars.

17. If you are expecting a new child, grandchild, marriage of a child or grandchild, or life transition next year, act quickly and strategically to make gifts and pay expenses expected next year tax-efficiently before 2022 ends.

18. If you own a business and want to accelerate savings for retirement, a defined benefit (DB) plan allows higher contributions to a federal qualified retirement plan than an IRA, but DB plans are subject to complex tax and actuarial rules.

19. Are your beneficiary designations on IRA, 401(k) or QRP accounts still in accord with your wishes?

20. Do you need an appointment to review your year-end tax situation with us? ●

leadership today is unlikely to repeat these errors," says Mr. Higgins. "This makes the Federal Reserve's hawkish turn in 2022 an expected outcome rather than an aberration."

Those who know about the speculative bubbles that have tormented U.S. markets for more than two centuries are justifiably skeptical of the unproven prospects of cryptocurrencies and NFTs. "Deep knowledge of the past enables envisioning the future with greater clarity," Mr. Higgins, says a senior investment advisor to multi-billion-dollar institutional federally qualified pension and 401(k) plans. "Investors who immerse themselves in history will likely greet future financial events

with recognition rather than surprise, enabling better outcomes."

If you are interested in learning more about how the period from 1914 to 1921 parallels with current investment conditions and how knowledge of history affects our firm's investment outlook, please let us know. ●

# Market Data Bank: 2nd Quarter 2022



## A BEAR MARKET BEGINS

The pandemic, Russian war on Ukraine, soaring inflation, rising interest rates, and growing possibility of a recession led a bear market to begin on June 13, when the S&P 500 dropped more than -20% from its January 3, 2022, all-time high. Stocks posted a -16.1% loss in 2Q 2022, after a -4.6% loss in 1Q 2022.



## A 12-MONTH WALL OF WORRY

Despite the back to back quarterly losses, the S&P 500 stock index over the five years ended June 30, 2022, showed a total return, including dividends, of +71%. The five year period included the pandemic market meltdown of February and March 2020, when the stock market lost -34% of its value.



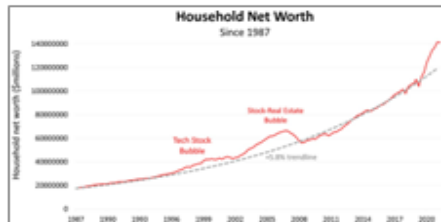
## INDUSTRY SECTORS

Higher energy prices propelled energy companies to the top of the 10 industry sectors in the S&P 500 stock index, with a +40% return in the 12 months ended June 30. Energy was No. 1 for the past four quarters but it was the worst performer for the five previous quarters starting in 4Q 2019.



## INDEXES TRACKING 13 ASSET CLASSES

Despite being in the throes of a bear market, No. 2 of the broad array of 13 investments for the five years ended June 30 was U.S. stocks. The other top performers were commodity, gold, and energy investments, all of which are more volatile than the S&P 500 index. Bonds and non-U.S. equities lagged by a wide margin.



## CONSUMERS ARE IN THE BEST SHAPE EVER

Household net worth surged like never before during the pandemic. Entering this downturn, household balance sheets were exceptionally strong. With consumers accounting for 70% of U.S. economic activity, this unusual support for continued consumer spending, suggests a short, shallow downturn.



## NO SUCH THING AS A FREE LUNCH

Amid a bear market, remember this is what you signed up for: a risky asset subject to periodic bear market drops of 40% or even 50%. This is why equities paid a premium over risk-free U.S. Treasury Bills for the past 20 years, which included bear markets in 2002, 2008, and early 2020.

Past performance is never a guarantee of your future results. Indices and ETFs representing asset classes are unmanaged and not recommendations. Foreign investing involves currency and political risk and political instability. Bonds offer a fixed rate of return while stocks fluctuate. Investing in emerging markets involves greater risk than investing in more liquid markets with a longer history. Indices are unmanaged and not available for direct investment. Investments with higher return potential carry greater risk of loss. Sources: Sector performance data from Standard and Poor's. Household net worth data through March 2022 from Federal Reserve Bank of St. Louis, released June 9, 2022; Equity risk premium data from Craig Israelsen, Ph.D, Advisors4Advisors. •

## Retirement Realities Are Grim

(Continued from page 1)

retirement and health care risks is long-term care insurance (LTCI), a relatively new type of insurance. For most of its 50-year history, insurers made overly optimistic assumptions about how many policyholders would keep policies in force, how long policyholders would live, and how many policyholders would need long-term care during their lives, and for how long it would be needed.

Because insurers' assumptions turned out to be wrong so often, many have gone to state insurance regulators to request approval for price increases, as allowed by the policy contracts. Milliman, a national actuarial firm, in March 2022, released results of a

voluntary survey of 20 insurers that had asked for rate increases. The survey showed that most rate hike requests received full or partial approval. The average increase approved was 29%, with a range from 5% to more than 60%.

Companies that request a rate increase also provide reduced benefit options, including reduced daily benefits, reduced benefit periods, increased elimination periods, and reduced inflation protection. Only about 11% of policyholders elected a reduced benefit option, the survey showed.

Many insurers also offer a reduced paid-up benefit, with no further premiums due, but fewer than 5% of policyholders elected this option.

The March 2022 survey of long-

term care insurer rate increases confirmed that LTCI is fraught with risks to policyholders. Whether you have a received a policy rate increase notice or are considering buying a new policy, we recommend consulting with a professional who understands the risks.

The grim realities many Americans will face in retirement, along with the complexity of long-term care insurance pose challenges to many affluent Americans who worked all their lives but do not have multi-million dollar nest eggs and family members they can rely on for long-term health care.

The earlier you get started on planning your retirement portfolio and retirement income needs, the easier it is likely to be to find solutions and gain peace of mind.●