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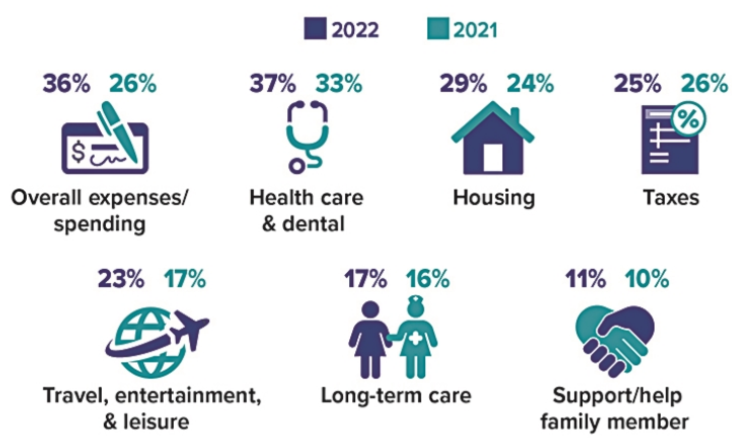
Don't miss John Stewart's article, "Election Creates More Uncertainty" below.

Spending Higher Than Expected for More Retirees in 2022

Considering high inflation, it's not surprising that the percentage of retirees who said their spending was higher than expected increased in 2022 over 2021. These surveys were conducted in January of each year, so with inflation continuing to run high, it's likely that even more retirees may be experiencing unexpected spending.



Source: Employee Benefit Research Institute, 2022

Election Creates More Uncertainty

Many people were expecting a “red wave” in last week’s mid-term election. However, what happened could not be categorized as much more than a ripple. By all accounts, Democrats significantly outperformed expectations. While there are still a handful of races that have yet to be officially decided, at this point it appears that Republicans should take control of the house by the slimmest of margins while the Democrats will retain control of the Senate – perhaps even picking up an additional seat. Assuming the Republicans do indeed take the gavel in the House come January, that would introduce an element of gridlock into Washington that most investors have come to view as a net positive for markets. To be sure, the historical record does show that stocks tend to outperform when there is a split in the power structure between the legislative and executive branches of government. Nevertheless, the nearly even split in Congress will likely keep investors guessing and could produce more uncertainty around things like the debt ceiling, which could turn into a dangerous game of chicken at some point in 2023. In addition, should the economy fall into recession next year, it seems unlikely that House Republicans will have much appetite for providing any stimulus packages that markets have come to expect any time things get shaky. That may in fact be the right decision given our current fiscal imbalances and still elevated levels of inflation. However, at least in the short run, it could mean more volatility and further downside risks for asset markets.

The story of 2022 has been rising interest rates for the first time in a long time – and that rise has been so swift and significant that it has produced the most severe bear market in bond prices since 1931.

The world has positioned itself on free money over the course of the past decade or so, and the rise in the cost of money (interest rates) has produced a significant amount of volatility in all asset markets, including, of course, the stock market. All things equal, higher interest rates lead to lower valuations on ownership assets like stocks and real estate, but the tightening in monetary conditions also squeezes the real economy, which is in the process of slowing globally after the stimulus-induced boom we experienced last year. We’re now dealing with the hangover of that period of excess monetary and fiscal largess. Our view is that the process of reigning in inflationary pressures through tighter monetary and fiscal policy has yet to run its course. Therefore, we expect market volatility to continue through at least the first half of 2023. A global recession is very likely, and markets have likely already priced in a mild recession. A deeper recession could cause more significant downside, and while that is certainly a possibility, it is also possible that we muddle through with minimal damage to the economy.

One of the ways we’re positioning for all the uncertainty in the world is by employing a strategy of broad diversification. Asset allocation hasn’t worked very well this year because assets across the entire investment spectrum have performed poorly. Nevertheless, there will likely be more differentiation among asset classes going forward. Both stocks and bonds have become more attractive as prices have declined. You can now get yields over 4% on short-term Treasuries, and even money markets are currently paying over 3% interest. So it is possible to reduce risk while still allowing for enough room in portfolios for long-term growth. Investing is never easy, but keeping a long-term focus and staying disciplined during periods of market volatility will ultimately lead to superior performance results.

Donor-Advised Funds Combine Charitable Impact with Tax Benefits

A donor-advised fund (DAF) is a charitable account offered by sponsors such as financial institutions, community foundations, universities, and fraternal or religious organizations. Donors who itemize deductions on their federal income tax returns can write off DAF contributions in the year they are made, then gift funds later to the charities they want to support. DAF contributions are irrevocable, which means the donor gives the sponsor legal control while retaining advisory privileges with respect to the distribution of funds and the investment of assets.

Donors can take their time vetting unfamiliar charities and exploring philanthropic opportunities. They can wait to take advantage of matching fund campaigns, have money ready to aid victims when disaster strikes, or build up funds over multiple years to make one large grant for a special purpose. Grants can generally be made to any qualified tax-exempt charitable organization in good standing.

Under current law, there are no rules about how quickly money in DAFs should be granted. However, legislation has been introduced — the Accelerating Charitable Efforts (ACE) Act — that would impose a 15-year limit on the donor's advisory privileges, among other changes. You may want to watch for future developments if you are interested in using donor-advised funds to execute a charitable giving strategy. (Any legislation passed in 2022 likely would not take effect until 2023.)

Tax-Efficient Timing

Gifts to public charities, including donor-advised funds, are tax deductible up to 60% of adjusted gross income (AGI) for cash contributions and 30% of AGI for non-cash assets (if held for more than one year). Contribution amounts that exceed these limits may be carried over for up to five tax years.

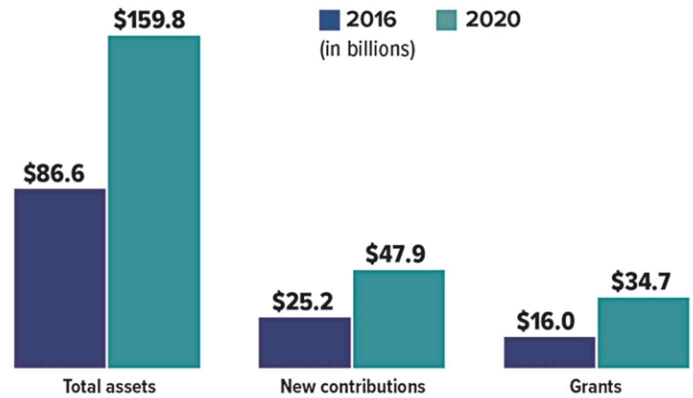
DAF contributions can be timed to make the most of the tax deduction. In an especially high-income year, for example, a larger contribution might keep a taxpayer from climbing into a higher tax bracket or crossing a threshold that would trigger Medicare surcharges or the net investment income tax.

Now that the standard deduction has been expanded ($12,950 for single filers and $25,900 for joint filers in 2022), many taxpayers don't benefit from itemizing deductions, including those for charitable donations. But with advance planning, it may be possible to bunch charitable contributions that would normally be donated over several years in a single tax year, ensuring that itemized deductions surpass the standard deduction.

A similar approach may appeal to pre-retirees in their peak earning years. Those who expect to be in a lower tax bracket and/or might claim the standard deduction during retirement might consider making deductible contributions to a donor-advised fund while they are still working.

Growth in Donor-Advised Funds

Contributions to DAFs accounted for about 10.1% of total U.S. charitable giving in 2020.



Source: National Philanthropic Trust, 2021

Gifting Appreciated Assets

Contributions to a donor-advised fund can be made with cash, publicly traded securities, and more complicated assets such as real estate, valuable art and collectibles, or a stake in a privately held business, offering a convenient way to gift appreciated assets. Fund sponsors typically have experience in evaluating and liquidating donated assets (a qualified appraisal may be needed). This way, a donor can make a single contribution to a DAF that eventually benefits multiple charities, including smaller organizations that are not able to accept direct donations of appreciated assets.

Giving appreciated assets to charity can provide lucrative tax savings. A donor may qualify for a tax deduction based on the current fair market value of the contribution while helping reduce capital gain taxes on the profits from the sale of those assets. This strategy may be helpful when family businesses or shares of privately held companies are sold, or any time a larger tax deduction is needed.

DAFs have fees and expenses that donors giving directly to a charity would not face. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Four Tips for Keeping Heating Costs Down This Winter

With the prices for gas, oil, and electricity continuing to soar across the country, consumers are facing another winter of high heating bills. According to the National Energy Assistance Directors' Association, the average cost of home heating is estimated to increase by 17.2% this season.[1] Here are some tips to help you keep your heating costs down.

Have your heating system serviced. Make sure that your heating system is working properly by having it serviced by a professional every year. In addition, keep your furnace filter, air registers/vents, baseboard heaters, and/or radiators clean and free of dust and debris in order to ensure that your heating system is operating at maximum efficiency.

Keep the heat in. To prevent heat from escaping your home, inspect windows and doors for air leaks and apply weather stripping, caulking, and/or spray foam around drafty areas. Make sure that all areas of your home are properly insulated, especially attics, basements, crawl spaces, and outside walls. If you have a fireplace, keep the damper closed when it's not in use and refrain from using it on extremely cold nights. Leave window curtains, shades, and blinds open during the day to allow sunlight in to warm your home, and close them at night to retain the heat inside your home.

Turn down your thermostat. Turning down your thermostat even just a few degrees can help you save on your heating bills. According to the Department of Energy, during winter months you should set your thermostat to 68 degrees when you are at home and awake and set it lower when you go to sleep at night or are away from home. To make it easier, you can install a programmable thermostat that allows you to preprogram your heat to a lower temperature at certain times of the day. For optimum temperature control, there are also smart thermostats that allow you to remotely control the temperature in your home directly from a smart phone or computer.

Schedule a home energy assessment. A home energy assessment is conducted by a home energy professional and usually involves a room-by-room examination of your home and past utility bills. A professional energy assessment provides detailed tips on how you can heat your home more efficiently and save money on your energy bills. Some utility companies will cover the cost of a professional energy assessment or offer discounts. Contact your utility company or visit energy.gov for more information.

1) National Energy Assistance Directors' Association, 2022

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