

# Nicholson Financial Services

Did You Know...?



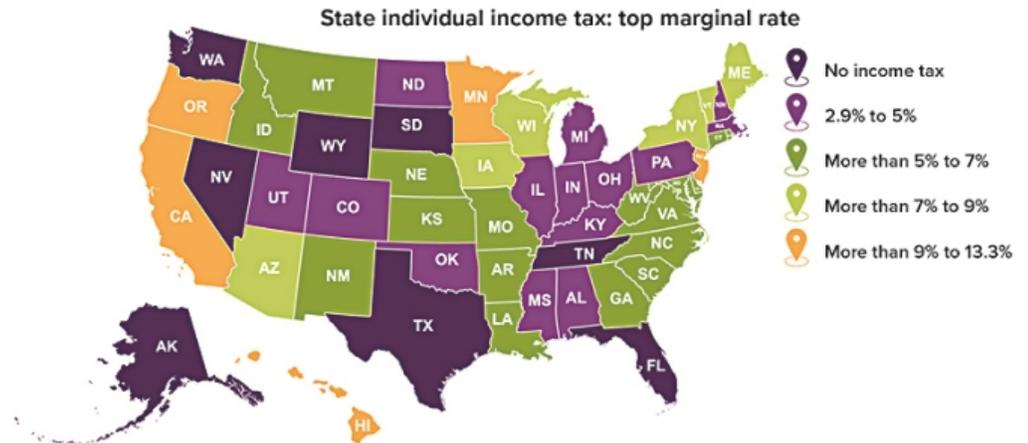
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**RAYMOND JAMES®**

As the summer is winding down, I hope everyone had a great one. My family had a very active summer in stark contrast to last year. We took trips to Ogunquit, ME and Hilton Head, SC after more than a year of going nowhere. It was great to have some semblance of normalcy. We are now cramming in college tours for my son who is entering his senior year of high school. Most schools were not offering in person tours until the past couple of months. How can you commit to a college without visiting it? Just another way Covid has had a huge impact on our lives. Unfortunately, I believe we will be dealing with Covid for quite a while, especially because of the new variants and vaccine hesitancy. That will likely continue to make supply chains unpredictable and the true economic impact of Covid harder to estimate. So far, this really has not had a negative impact on the markets, but I continue to be cautious in that regard. Have a safe and happy Labor Day weekend!

## State Income Tax: Depends on Where You Live or Work

Eight states have no state income tax. Of the 42 states with a state income tax (and the District of Columbia), the top marginal income tax rate ranges from 2.9% to 13.3%. Most states (and D.C.) with an income tax have multiple tax brackets with graduated rates; nine states have only a single tax rate.



Source: Tax Foundation, *Fiscal Fact No. 750*, February 2021

# Life Insurance Beneficiary Mistakes to Avoid

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. Naming your policy's beneficiaries should be a relatively simple task. However, there are several situations that can easily lead to unintended and adverse consequences you may want to avoid.

## Not Naming a Beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together, or that your named beneficiary may die before you do. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

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### Examples of Accounts with Beneficiaries



Life insurance, annuities



IRAs, 401(k)s, 403(b)s



Investment or brokerage accounts, CDs

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## Death Benefit Paid to Your Estate

If your life insurance benefit is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payment to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

Naming primary, secondary, and final beneficiaries may avoid having the proceeds ultimately paid to your estate. If the primary beneficiary dies before you do, then the secondary or alternate beneficiaries receive the proceeds. And if the secondary beneficiaries are unavailable to receive the death benefit, you can name a final beneficiary, such as a charity, to receive the insurance proceeds.

## Naming a Minor Child as Beneficiary

Unintended consequences may arise if your named beneficiary is a minor. Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian — a potentially

costly and time-consuming process — to handle the proceeds until the minor beneficiary reaches the age of majority according to state law.

If you want the life insurance proceeds to be paid for the benefit of a minor, consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

## Per Capita or Per Stirpes Designations

It's not uncommon to name multiple beneficiaries to share in the life insurance proceeds. But what happens if one of the beneficiaries dies before you do? Do you want the share of the deceased beneficiary to be added to the shares of the surviving beneficiaries, or do you want the share to pass to the deceased beneficiary's children? That's the difference between per stirpes and per capita.

You don't have to use the legal terms in directing what is to happen if a beneficiary dies before you do, but it's important to indicate on the insurance beneficiary designation form how you want the share to pass if a beneficiary predeceases you. Per stirpes (*by branch*) means the share of a deceased beneficiary passes to the next generation in line. Per capita (*by head*) provides that the share of the deceased beneficiary is added to the shares of the surviving beneficiaries so that each receives an equal share.

## Disqualifying a Beneficiary from Government Assistance

A beneficiary you name to receive your life insurance may be receiving or is eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to the government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

## Review All Your Beneficiary Designations

In addition to life insurance, you may have other accounts that name a beneficiary. Be sure to periodically review the beneficiary designations on each of these accounts to ensure that they are in line with your intended wishes.

*The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.*

# Stock Market Risks in the Spotlight

During March 2021, the widening availability of COVID-19 vaccinations, signs of improving economic conditions, and a third, \$1.9 trillion stimulus package brought about more optimistic growth projections. Even though a healthy economy could be good news for many businesses and the financial markets, rising inflation expectations caused a multi-week sell-off in U.S. government bonds that pushed up longer-term yields and sent the Nasdaq Composite Index into correction territory on March 8, 2021.<sup>1</sup>

Promising a patient approach, the Federal Reserve stated that it would not raise interest rates until the labor market fully recovers and inflation moderately exceeds the 2% target for some time.<sup>2</sup> But some investors worry that sharply higher inflation could force policymakers to boost rates sooner than originally expected.

Here's a closer look at some specific types of investment risk that could influence individual stock prices and/or cause broader market swings during the second half of 2021.

## Inflation and Interest-Rate Fears

Inflation and interest rates are two different but closely related investment risks. The Federal Reserve is tasked with fostering full employment and controlling inflation. One way it balances these two goals is by lowering interest rates to stimulate business activity or raising rates to help slow inflation when the economy is heating up too fast.

High inflation erodes the value of investment returns, but when interest rates rise, bond values fall (and vice versa). These risks are obvious considerations for bond owners, but they also impact stocks. When goods, services, and credit cost more, consumers have less purchasing power, which can hurt company earnings and stock prices as well.

Rising bond yields might continue to have a negative effect on stock values, because as they move up, borrowing costs for most businesses also rise, cutting into profits. Higher yields could also entice risk-averse investors to sell their stocks and buy more stable bonds instead.

## Legislative or Regulatory Impacts

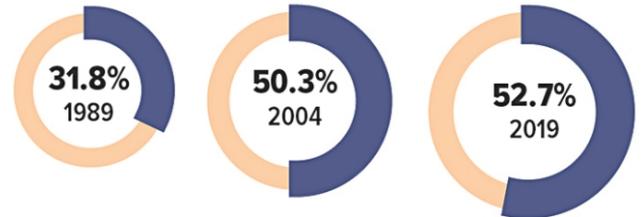
Some government actions (such as antitrust lawsuits, higher taxes, and more stringent regulations or standards) make it more difficult and expensive for companies to do business, which can adversely affect their earnings and stock prices. On the other hand, government subsidies and tariffs on foreign products can provide competitive advantages.

The Justice Department, Federal Trade Commission, and numerous states are in the midst of antitrust lawsuits or major investigations into the business

practices of several market-dominating tech companies.<sup>3</sup> In another example, the Securities and Exchange Commission is considering new standards for corporate disclosures related to environmental, social, and governance risks.<sup>4</sup>

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## Percentage of U.S. Households Who Own Stocks\*



\*Owned directly or indirectly through investment vehicles

Source: Investment Company Institute, 2021 (data from Federal Reserve Board Survey of Consumer Finances)

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## Event or Headline-Driven Volatility

Headline risk refers to the possibility that events reported in the media could hurt a company's reputation and/or earnings prospects. Troubling news can cause market backlash against a specific company or an entire industry. Companies try to manage this risk through public relations campaigns and other efforts to generate positive news that leaves a good impression on consumers. Events that threaten to disrupt business activity nationwide, regionally, or around the world can cause sudden stock market declines.

The market responds to news, good or bad, almost every day. For this reason, your portfolio should be designed to weather a range of market conditions and have a risk profile that reflects your ability to endure periods of market volatility, both financially and emotionally.

*The principal value of bonds may fluctuate with changes in interest rates and market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.*

1) *The Wall Street Journal*, March 8, 2021

2) Federal Reserve, March 17, 2021

3) Reuters, December 16, 2020

4) *The Wall Street Journal*, February 24, 2021

# A Map for Your Family

A will is an essential legal document that describes how your estate should be distributed upon your death. It is the basis for the probate process and can serve as a guide for your heirs.

A letter of instruction — which has no legal status — provides information that can help your loved ones settle your estate and move forward with their lives. You might consider it a map for your family.

Unlike a will, which must follow legal guidelines for your state and may require an attorney, a letter of instruction can be written yourself in any way you choose. Here are some topics you may want to address.

**Financial accounts and account numbers**, including online user names and passwords. If you prefer not to write down user names or passwords, the executor of your estate should be able to access accounts with the account numbers and your Social Security number.

**List of documents and their locations**, including (but not limited to) your will, insurance policies, tax returns, bank and investment account documents, real estate deeds and mortgage documents, vehicle titles, Social Security and Medicare cards, marriage and/or divorce papers, and birth certificate.

**Contact information** for professionals who handle your financial and legal affairs, such as your attorney, financial advisor, insurance agent, and accountant.

Also include others who may be helpful, such as a business partner or trusted friend.

**Bills and creditors**, including when payments are due and other pertinent information, such as loan terms and balances as of the date of the letter.



*A letter of instruction could be just as important as a will to help your heirs settle your estate and move forward with their lives.*

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**Your final wishes** for burial or cremation, a funeral or memorial service, organ donation, and charitable contributions in your memory.

You might also include more personal thoughts or life lessons that you want to pass on, or you could write a separate letter. Keep your letter of instruction in a safe, yet accessible place and tell your loved ones where it can be found. It might be wise to give a copy of the letter to the executor of your estate and other trusted friends or advisers.

Be sure to review the letter regularly and update it as appropriate. Your heirs will thank you for taking the time to prepare.

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