



# OnWealth

Financial Advice from Wealth Management Services



**Craigen S. Schoen, CFP®**  
**Managing Director**  
**Raymond James & Associates, Inc.**  
112 Haywood Road  
Greenville, SC 29607  
864-289-2164  
craigen.schoen@raymondjames.com



## 5.12 million

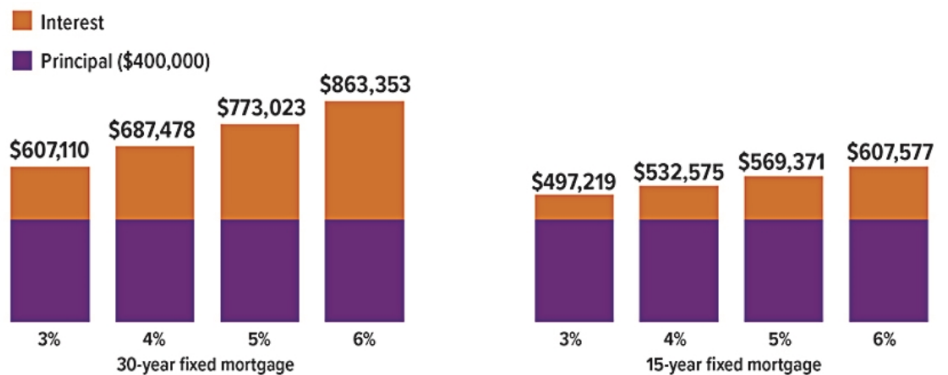
Existing home sales in June 2022, down 14.2% from June 2021. Rising mortgage rates and general inflation have cut into purchasing power for homebuyers, while the national median existing-home price reached a record \$416,000, up 13.4% from one year ago. A recent increase in homes on the market may help to ease prices, but that remains to be seen.

Source: National Association of Realtors, 2022

## The Cost of Borrowing

In April 2022, the average interest rate for a 30-year fixed mortgage surpassed 5% for the first time since April 2010, and it was still above 5% in August. With higher rates, it's more important than ever to understand how interest increases the total cost of a mortgage.

The chart below shows the total cost for a \$400,000 conventional 30-year fixed mortgage and an accelerated 15-year fixed mortgage (typically used for refinancing) at different interest rates. A \$400,000 mortgage would enable a buyer to purchase a \$500,000 home with a 20% down payment.



Source: Freddie Mac, 2022. *This hypothetical example of mathematical principles is used for illustrative purposes only. Actual results will vary.*

# How Much Life Insurance Do You Need?

Throughout your life, your financial needs will change and life insurance can help you meet some of those needs. But how much life insurance do you need? There are a number of approaches to help determine how much life insurance you should have. Here are three of those methods.

## Family Needs Approach

With this approach, you divide your family's financial needs into three main categories:

- Immediate needs at death, such as cash needed for estate taxes and settlement costs, credit-card and other debts including a mortgage (unless you choose to include mortgage payments as part of ongoing family expenses), and an emergency fund for unexpected costs
- Ongoing income needs for expenses such as food, clothing, shelter, and transportation, which will vary in amount and duration, depending on a number of factors, such as your spouse's age, your children's ages, your surviving spouse's income, your debt, and whether you'll provide funds for your surviving spouse's retirement
- Special funding needs, such as college, charitable bequests, funding a buy/sell agreement, or business succession planning

Once you determine the total amount of your family's financial needs, subtract that total from the available assets your family could use to help defray some or all of these expenses. The difference, if any, represents an amount that the life insurance proceeds, and the income from future investment of those proceeds, might cover.

## Income Replacement Calculation

This method is based on the premise that family income earners should buy enough life insurance to replace the loss of income due to an untimely death. Under this approach, the amount of life insurance you should consider is based on the value of the income that you can expect to earn during your lifetime, taking into account such factors as inflation and anticipated salary increases, as well as the interest that the lump-sum life insurance proceeds may generate.

## Estate Preservation and Liquidity Needs Approach

This method attempts to calculate the amount of life insurance needed to settle your estate. Settlement costs may include estate taxes and funeral, legal, and accounting expenses. The goal is to preserve the value of your estate at the level prior to your death and to avoid an unwanted sale of assets to pay for any of these estate settlement expenses. This approach

takes into consideration the amount of life insurance you may want in order to maintain the current value of your estate for your family, while providing the cash needed to cover death expenses and taxes.

Unfortunately, many people underestimate their life insurance needs. Often, the purchase of life insurance is based solely on its cost instead of the benefit it might provide. By the same token, it's possible to have more life insurance than you need. September is Life Insurance Awareness Month, a good time to review your life insurance to help ensure that it matches your current and projected needs.

*The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Optional benefits are available for an additional cost and are subject to contractual terms, conditions, and limitations.*

## Interest in Life Insurance Stays Strong



**68%**  
of life insurance owners report  
feeling financially secure



**44%**  
say they'd face financial hardship  
within 6 months if a primary  
wage earner died



**41%**  
say they need life insurance —  
or more of it



**31%**  
of people say COVID-19 has made  
it more likely they'll purchase life  
insurance within the next 12 months

Source: 2022 Insurance Barometer Study, Life Happens and LIMRA

# Pooled Income Fund: A Charitable Gift That Provides Income to You

A pooled income fund is a trust with both charitable and noncharitable beneficiaries. It is established and run by a public charity, not by you. The charity "pools" the irrevocable contributions of many people, invests the money, and then distributes to you (or your designated beneficiary) a periodic income payment (usually quarterly or annually) for life, prorated to match your contribution to the fund. When you die or your designated beneficiary dies, your remaining share in the fund passes to the charity.

## Charitable Deduction

If you itemize deductions, you receive an immediate federal income tax charitable deduction for the present value of the remainder interest that will pass to charity. Your deduction is limited to 50% or 30% of your adjusted gross income (AGI), depending on the type of property contributed. Amounts disallowed because of the AGI limitations can be carried over for up to five years, subject to the AGI limitations in the carryover years. The transfer of the remainder interest to charity would also qualify for the federal gift tax or estate tax charitable deduction.

The amount of the income tax deduction is generally based on the fair market value of the property contributed to the pooled income fund, the beneficiary or beneficiaries' age(s), and the fund's highest rate of return in the last three taxable years.

## Noncharitable Income Interest

Trust payments can last for the life or lives of one or more noncharitable beneficiaries. For example, you could name yourself, yourself and your spouse, or even someone else as the noncharitable beneficiary.

If you retain a noncharitable interest, the pooled income fund interest will be included in your gross estate for federal estate tax purposes. If your spouse receives the noncharitable interest as your survivor, that interest should qualify for the estate tax marital deduction (and the balance should qualify for the estate tax charitable deduction).

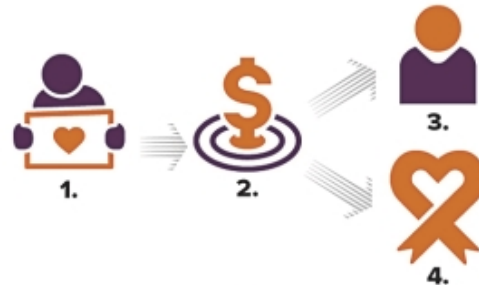
If you transfer a noncharitable interest to someone else while you are alive, you may have made a gift or generation-skipping transfer (GST) to that person of the income interest. (A GST is a transfer to a person two or more generations younger than you.) A portion of the gift may qualify for the annual gift tax exclusion, but not for the GST tax annual exclusion. A transfer to your spouse would generally qualify for the gift tax marital deduction. You may also have a federal gift and estate tax applicable exclusion amount or a GST tax exemption to shelter any transfer from tax.

Donors generally have limited choices in investment strategy. The amount of income received by the noncharitable beneficiary is not guaranteed; it may increase or decrease depending on the performance

of the fund. If the investments in the fund perform poorly and the actual income earned by the fund declines, the charity is prohibited from invading the principal to increase the payment to the noncharitable beneficiary.

Income distributed to the noncharitable beneficiary is usually taxable at ordinary income tax rates. It may also be subject to the 3.8% net investment income tax.

## How a Pooled Income Fund (PIF) Works



1. You donate to PIF (charitable tax deduction)
2. Charity pools donations and invests them
3. PIF pays share of fund's income annually to beneficiary
4. Charity keeps what's left after beneficiary dies

## Other Considerations

One of the biggest advantages of choosing a pooled income fund over a charitable remainder unitrust or charitable remainder annuity trust is that you avoid the hassle and cost of establishing your own trust. Another advantage is that if the property you are donating to charity is relatively small, a pooled income fund makes the most of your assets by commingling them with the property of others. The fund can then use the increased assets to diversify among investments, thus helping reduce your investment risk. Also, the large size of the fund (compared to your own charitable trust) may translate into lower operating costs and more experienced management. By contrast, it may not be economically feasible for you to establish a charitable trust with a small investment. Even if you do, it may be impossible for the trustee to spread this money over a variety of investments. (Diversification does not guarantee a profit or protect against investment loss.)

In general, you can donate any type of property to a pooled income fund that the charity is willing to accept. A noncash donation will generally cause the 30% AGI limitation to apply to your charitable deduction. A fund cannot accept or hold tax-exempt securities.

*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.*

# Uncle Sam Wants to Know About Your Gig Income

If you earn money through an app or online digital platform, you may be affected by a tax reporting change that took effect on January 1, 2022. A provision of the 2021 American Rescue Plan requires third-party payment processors to report business transactions totaling over \$600 per year by issuing a Form 1099-K to the taxpayer and the IRS. In prior years, the reporting threshold was much higher (200 business transactions and \$20,000).

Here are a few things you should probably know about this far-reaching new rule.

**It's not personal.** Business transactions are defined as payments for goods or services, including tips. Money received from the online sale of personal items like old clothing or furniture, which are normally sold at a loss, is not taxable and does not need to be reported. However, those in the business of reselling goods for a profit should carefully track the original costs of their purchases. Peer-to-peer payment apps are not required to report personal transactions intended as gifts or used to pay back friends for dinner or trips, or to split other costs. How will third-party apps know the difference? The payer will be asked to indicate the purpose of each transaction so it can be categorized correctly.

**It's not a tax change.** Taxpayers who sell goods, regularly rent out a vacation home, walk dogs, or perform any other type of freelance work through

digital platforms were already responsible for self-reporting all income for tax purposes. But now the IRS will have a way to cross-reference the information sent by third parties with amounts reported by individuals and businesses on their tax returns.

**It's not foolproof.** This change may cause confusion that could result in costly mistakes. If a payer (such as a roommate making a shared rent payment) accidentally clicks on the wrong box, the recipient could receive a Form 1099-K for a transaction that is not taxable. It's also possible that a freelancer will receive a Form 1099-K from the payment processor and a Form 1099-MISC from the client for the same transaction. In such cases, the taxpayer may need to explain the discrepancy to the IRS.

Using separate accounts for business and personal digital transactions could make things simpler at tax time. Keeping detailed and organized records will help ensure that your tax return is accurate, so you don't overpay or raise any red flags with the IRS.

Because the new reporting requirement may have unintended consequences that frustrate taxpayers, some lawmakers have proposed raising the threshold to a less onerous level. While it's far from certain that Congress will backtrack on this issue, you may want to watch for future developments. If you have questions about how the new rule might affect you, don't hesitate to consult a qualified tax professional.

---

Raymond James & Associates, Inc., member New York Stock Exchange/SIPC

This information, developed by an independent third party, has been obtained from sources considered to be reliable, but Raymond James does not guarantee that the foregoing material is accurate or complete. This information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. Investments mentioned may not be suitable for all investors. The material is general in nature. Past performance may not be indicative of future results. Raymond James does not provide advice on tax, legal or mortgage issues. These matters should be discussed with the appropriate professional.