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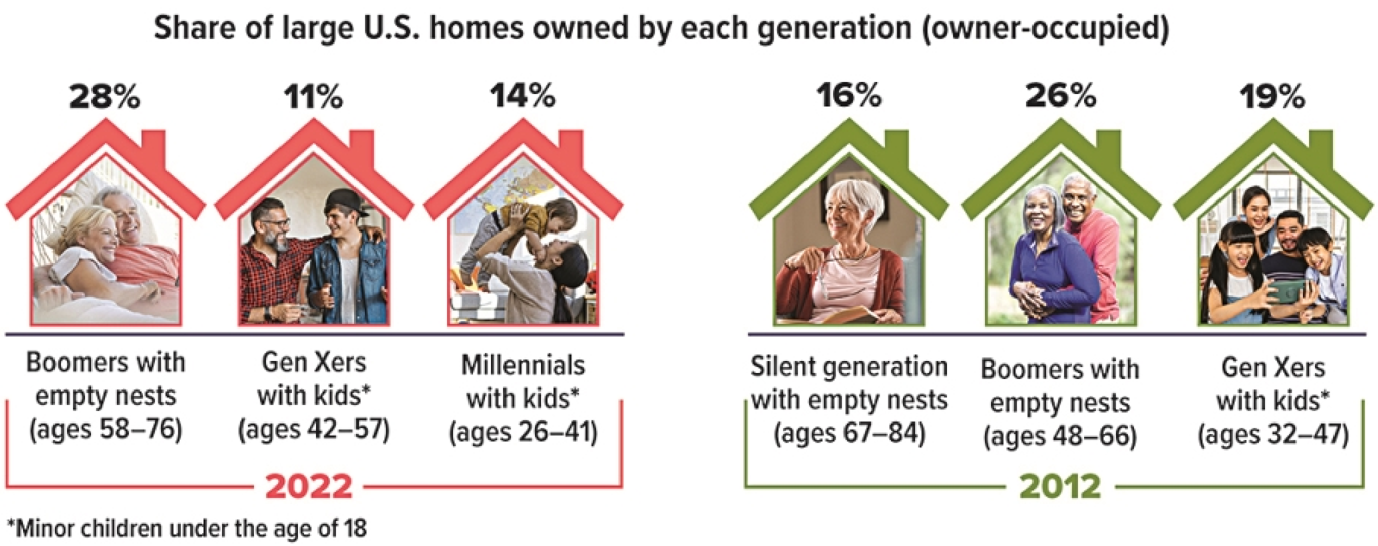
Empty Nesters Own Outsized Share of Big Homes

Empty-nest baby boomers owned twice as many large homes (with three bedrooms or more) as young families with kids in 2022. Careerwise, many boomers benefited financially from the 90s economic boom and/or bought their first homes when it was much more affordable. In recent years, boomers have had little reason to downsize, as many own their homes outright or have mortgages with lower rates than they could get for a replacement home. Millennials' earnings were negatively impacted by the Great Recession, and they've had to spend more of their incomes on housing. Ten years ago, the older generation owned a smaller share of large homes than families that were raising children.



Source: Redfin, 2023

Do You Have Enough Life Insurance?

Your life insurance needs change as your life changes. When you are young, you may not have a need for life insurance. However, as you take on more responsibility and your family grows, your life insurance needs increase but then decrease after your children are grown.

You should periodically review your life insurance coverage to ensure that it adequately reflects your life situation. Here are several methods to consider in determining your life insurance needs.

Income rule

The most basic rule of thumb is the income rule, which states that your insurance need would be equal to six or eight times your gross annual income. For example, a person earning a gross annual income of $60,000 should have between $360,000 (6 x $60,000) and $480,000 (8 x $60,000) in life insurance coverage.

Income plus expenses

This rule considers your insurance need to be equal to five times your gross annual income plus the total of any mortgage, personal debt, final expenses, and special funding needs (e.g., college). For example, assume that your gross annual income is $60,000 and your total expenses are $160,000. Your insurance need would be equal to $460,000 ($60,000 x 5 + $160,000).

Income replacement calculation

The income replacement calculation is based on the theory that the 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 purchasing 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 will generate.

Family needs

With the family needs approach, you would purchase enough life insurance to allow your family to meet its various expenses in the event of your death. Under the family needs approach, you divide your family's needs into three main categories:

- Immediate needs at death (cash needed for funeral and other expenses)
- Ongoing needs (income needed to maintain your family's lifestyle)
- Special funding needs (college funding, bequests to charity and children, etc.)

Once you determine the total amount of your family's needs, you should consider purchasing enough life insurance to cover that amount, taking into consideration the interest that the life insurance proceeds could earn over time.

Choosing the Most Appropriate Policy

Here are some factors to consider when choosing a life insurance policy.

1. How much coverage do you need?
2. How long will you need the coverage?
3. How much coverage can you afford?
4. What policy riders or features might you need?
5. What is the financial strength and rating of the insurance company you're considering?

Estate preservation and liquidity needs

This approach attempts to calculate the amount of life insurance needed upon your death to settle your estate. This method takes into consideration the amount of life insurance required to maintain the current value of your estate for your family, while potentially providing the cash needed to cover death expenses and taxes. Using this method, you should consider purchasing enough life insurance to cover potential estate taxes, along with funeral, accounting, and legal expenses associated with the administration of your estate. The life insurance may allow you to preserve the value of your estate at the level prior to your death and to help prevent an unwanted sale of assets to pay estate taxes and related expenses.

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

Eight Great Investing Quotes

Investing can be daunting, whether you are experienced or a beginner. Even if you feel confident about your investing strategy, it can be easy to lose focus or make decisions based on emotion. Here are eight quotes from successful investors, economists, and other insightful thinkers that may help provide perspective and focus for your own investing strategy.

"The individual investor should act consistently as an investor and not as a speculator."[1]

— Benjamin Graham, investor, author, and teacher known as the "father of value investing." A speculator takes large risks in the hopes of making large quick gains. An investor focuses on risk-appropriate strategies to pursue long-term goals.

"Don't try to buy at the bottom and sell at the top. It can't be done except by liars."[2]

— Bernard Baruch, investor and presidential adviser. Trying to time the market may be tempting, but it rarely works, because no one really knows when the market has reached its top or bottom.

"If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."[3]

— Warren Buffett, investor, businessman, and philanthropist. Buffett, a former student of Benjamin Graham, is perhaps the most famous proponent of patient "buy and hold" investing.

"Take measured risk."[4]

— Doris P. Meister, investment manager and business leader. All investing involves risk, but risk can be managed through careful research and proven strategies such as asset allocation and diversification.

"Regardless of what happens in the markets, stick to your investment program. Changing your strategy at the wrong time can be the single most devastating mistake you can make as an investor."[5]

— John Bogle, investor and mutual fund industry pioneer. A sound investment strategy should be designed to carry you through market ups and downs.

"Know what you own, and know why you own it."[6]

— Peter Lynch, investment manager, author, and philanthropist. Your portfolio should be assembled with an eye toward meeting your long-term financial goals, not by rushing to own the "flavor of the month."

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."[7]

— Paul Samuelson, 1970 Nobel laureate in economic sciences. Investors often make poor decisions when they are driven by adrenalin; patience is more likely to produce positive results in the long run.

"Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."[8]

— Albert Einstein, 1921 Nobel laureate in physics. Even though this and similar quotes are often attributed to Einstein, it's uncertain whether he ever said them. Either way, one of the most powerful tools for investors is reinvesting interest, dividends, and capital gains.

There is no guarantee that any investing strategy will be successful. All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost. Investments seeking to achieve higher returns also involve a higher degree of risk. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

1, 6, 7) Investopedia, September 15, 2023

2, 5) BrainyQuote, accessed March 28, 2024

3, 8) Goodreads, accessed March 28, 2024

4) *U.S. News & World Report,* March 11, 2024

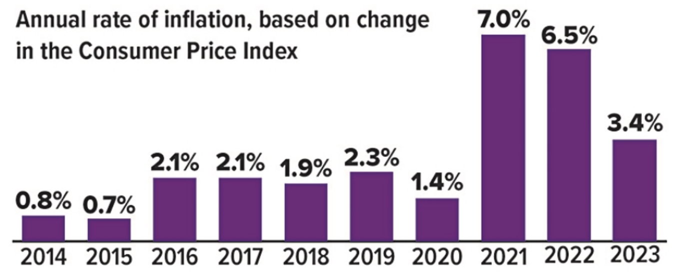
What's Your Real Return?

As an investor, you probably track the return on your investments. But it's likely that you look at the *nominal return,* which is the percentage increase or decrease in the value of an investment over a given period of time, usually expressed as an annual return. To estimate actual income or growth potential in order to target financial goals, such as a certain level of retirement income, it's important to consider the *real return,* which includes the effects of taxes and inflation.

Let's say you want to purchase a bank-issued certificate of deposit (CD), because you like the lower risk and fixed interest rate that a CD can offer. CD rates have risen substantially with the Federal Reserve's aggressive increases in the federal funds rate, so let's say you find a CD that offers 5% annual interest. That could be attractive. However, if you're taxed at the 22% federal income tax rate, 1.1% will be gobbled up by federal income tax on the interest.

That still leaves an interest rate of 3.9%, but you should consider the purchasing power of the interest. For example, inflation slowed to 3.4% in 2023 after hitting 40-year highs in 2021 and 2022 (see chart). But a 3.4% inflation rate would leave a real return of just 0.5%. If inflation slows further, the real return on this hypothetical CD would increase. However, if the Fed were to lower the benchmark federal funds rate in response, rates on CDs and other fixed-income investments might decline, reducing the real return on future CD and fixed-income purchases.

Eroding Purchasing Power



Source: U.S. Bureau of Labor Statistics, 2024

This hypothetical example doesn't represent the performance of any specific investment, but it illustrates the importance of understanding what you're actually earning after taxes and inflation. In some cases, the lower risk offered by an investment may be appealing enough that you're willing to accept a low real return. However, pursuing long-term goals such as retirement generally requires having some investments with the potential for higher returns, even if they carry a higher degree of risk.

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. All investments are subject to risk, including the possible loss of principal. When sold, investments may be worth more or less than the original cost.