



69%

Percentage of Americans using a buy now, pay later (BNPL) service in 2022 who carried over a credit card balance from one billing cycle to the next. A BNPL service allows consumers to pay for online purchases with interest-free payments, typically up to four payments spread over six weeks.

Source: *Consumer Financial Protection Bureau, 2023*

4.6%

Annual rate of “supercore” inflation in April 2023. Supercore is a metric that excludes goods, food, energy, and shelter, which are all categories that have been especially volatile over the last year. By contrast, the Consumer Price Index for all items increased 4.9%.

Source: *Bloomberg, May 26, 2023*

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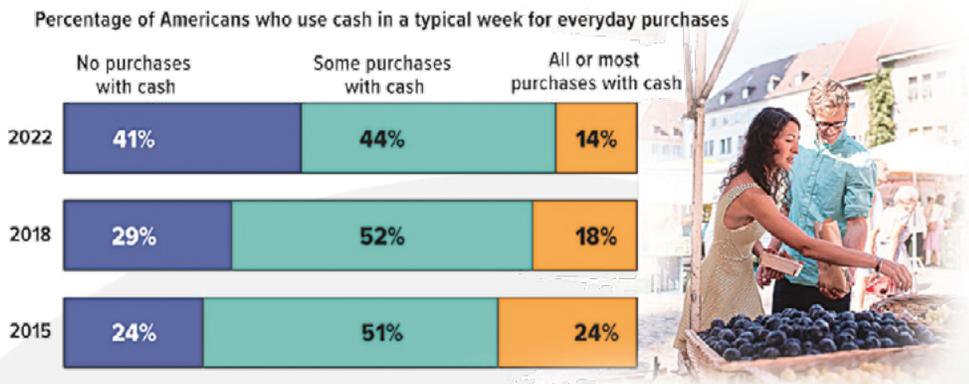
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MORE AMERICANS EMBRACE THE CASHLESS ECONOMY

A growing number of Americans are going “cashless” for everyday purchases like groceries, gas, services, and meals compared to previous years. A cashless payment might be made using a debit or credit card, or a payment app or mobile wallet on a smartphone.

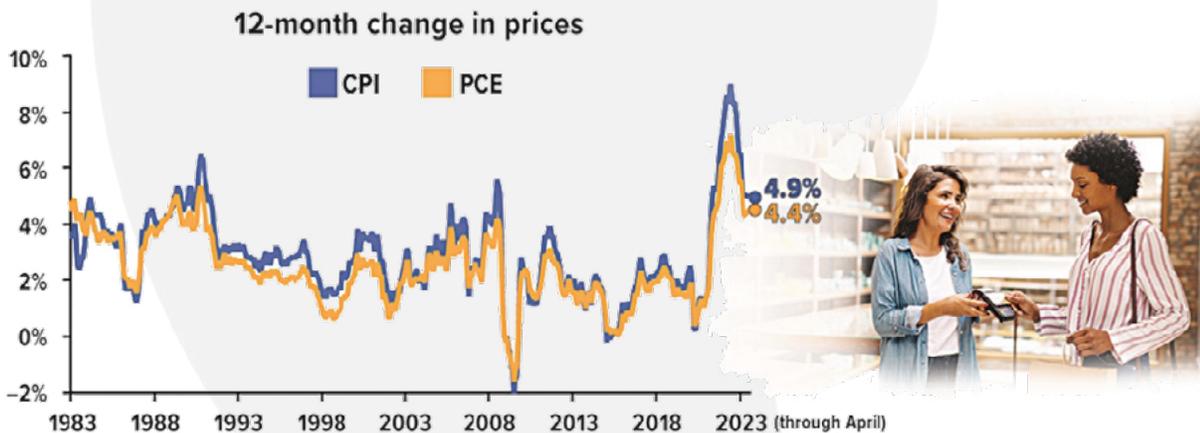
In 2022, about 41% of Americans said none of their purchases in a typical week were paid for using cash, up from 29% in 2018 and 24% in 2015. Among affluent households, 59% said they didn’t use cash for any typical weekly purchases. The trend of not carrying cash varies by age, with 54% of people under age 50 saying they don’t worry much about whether they have cash on hand compared to 28% of people 50 and older.



Source: Pew Research Center, 2022 (numbers do not equal 100% due to rounding)

INFLATION GAUGES DON'T ALWAYS PAINT THE SAME PICTURE

Economists and investors rely on the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE) Price Index to track the path of inflation over time. The two indexes use different formulas and data sources — CPI gets data from consumers and PCE data comes from businesses. PCE is broader in scope and some expenditure categories are weighted very differently. In late 2022, the difference between annual inflation as measured by CPI and PCE was the widest it has been since the 1980s.



Source: U.S. Bureau of Labor Statistics, 2023; U.S. Bureau of Economic Analysis, 2023 (data through April 2023)

GIVE YOUR MONEY A MIDYEAR CHECKUP

If 2023 has been financially challenging, why not take a moment to reflect on the progress you've made and the setbacks you've faced? Getting into the habit of reviewing your finances midyear may help you keep your financial plan on track while there's still plenty of time left in the year to make adjustments.

Goal Overhaul

Rising prices put a dent in your budget. You put off a major purchase you had planned for, such as a home or new vehicle, hoping that inventory would increase and interest rates would decrease. A major life event is coming up, such as a family wedding, college, or a job transition.

Both economic and personal events can affect your financial goals. Are your priorities still the same as they were at the beginning of the year? Have you been able to save as much as you had planned? Are your income and expenses higher or lower than you expected? You may need to make changes to prevent your budget or savings from getting too far off course this year.

Post-Tax Season Estimate

Completing a midyear estimate of your tax liability may reveal planning opportunities. You can use last year's tax return as a basis, then factor in any anticipated adjustments to your income and deductions for this year.

Check your withholding, especially if you owed taxes or received a large refund. Doing that now, rather than waiting until the end of the year, may help you avoid a big tax bill or having too much of your money tied up with Uncle Sam.

You can check your withholding by using the IRS Tax Withholding Estimator at irs.gov. If necessary, adjust the amount of federal income tax withheld from your paycheck by filing a new Form W-4 with your employer.

Investment Assessment

Review your portfolio to make sure your asset allocation is still in line with your financial goals, time horizon, and tolerance for risk. How have your investments performed against appropriate benchmarks, and in relationship to your expectations and needs? Looking for new opportunities or rebalancing may be appropriate, but be cautious about making significant changes while the market is volatile.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investing involves risk, including the possible loss of principal and there is no guarantee that any investment strategy will be successful.

More to Consider

Here are five questions to consider as part of your midyear financial review.



Do you have an emergency fund?



What are the interest rates on your credit cards?



Can you put more in your health savings account?



How much is left in your flexible spending account?



Have you checked your credit score recently?

Retirement Savings Reality Check

If the value of your retirement portfolio has dipped, you may be concerned that you won't have what you need in retirement. If retirement is years away, you have time to ride out (or even take advantage of) market ups and downs. If you're still saving for retirement, look for opportunities to increase retirement plan contributions. For example, if you receive a pay increase this year, you could contribute a higher percentage of your salary to your employer-sponsored retirement plan, such as a 401(k), 403(b), or 457(b) plan. If you're age 50 or older, consider making catch-up contributions to your employer plan. For 2023, the contribution limit is \$22,500, or \$30,000 if you're eligible to make catch-up contributions.

If you are close to retirement or already retired, take another look at your retirement income needs and whether your current investment and distribution strategy will provide enough income. You can't control challenging economic cycles, but you can take steps to help minimize the impact on your retirement.

FINANCING OPTIONS TO HELP YOU RIDE THE MORTGAGE RATE ROLLER COASTER

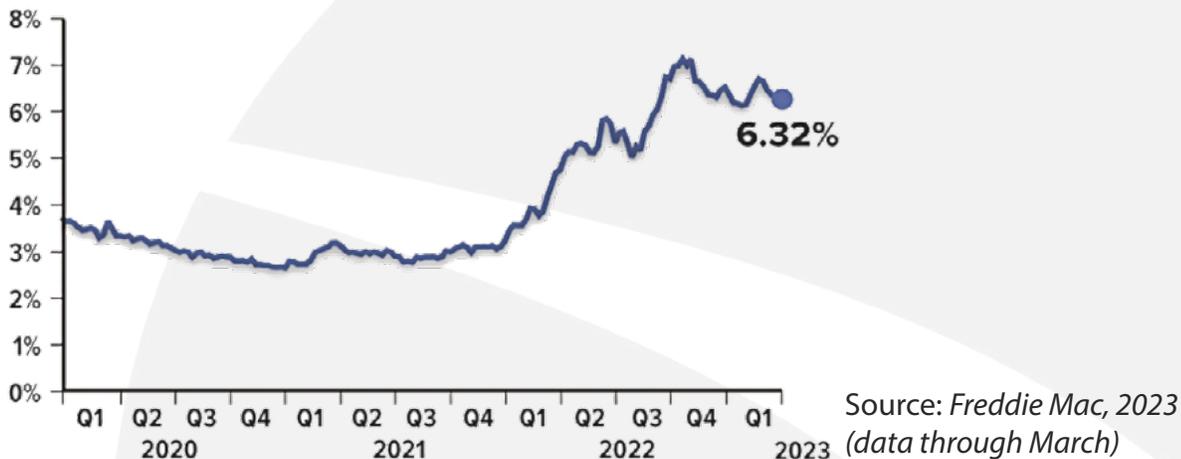
The mortgage industry has been on a roller coaster ride over the last couple of years. Interest rates for fixed-rate mortgage loans were at historical lows during the beginning of the pandemic in 2020, rising to a 20-year high in late 2022 — and fluctuating ever since.¹ Many buyers are finding it difficult to afford a new home with traditional fixed-rate mortgage loans in such a high interest rate environment. As a result, more buyers are relying on alternative financing options to help lower their interest rates.²

Adjustable-Rate Mortgages

With an adjustable-rate mortgage (ARM), also referred to as a variable-rate mortgage, there is a fixed interest rate at the beginning of the loan which then adjusts annually for the remainder of the loan term. ARM rates are usually tied to the performance of an index. To determine the ARM rate, the lender will take the index rate and add it to an agreed-upon percentage rate, referred to as the margin. Most lenders offer ARMs with fixed-rate periods of five, seven or 10 years, along with caps that limit the amount by which rates and payments can change.

The initial interest rate on an ARM is generally lower than the rate on a traditional fixed-rate mortgage, which will result in a lower monthly mortgage payment. However, depending on interest rates, buyers with ARMs may find themselves with significantly higher mortgage payments once the fixed-rate period ends. Buyers should only consider ARMs if they can tolerate fluctuations in their mortgage payments or plan on refinancing or selling the home before the initial interest rate period ends.

30-Year Fixed Mortgage Interest Rates, January 2020 to March 2023



Temporary Buydowns

A temporary buydown provides the buyer with a lower interest rate on a fixed-rate mortgage during the beginning of the loan period (e.g., the first one or two years) in exchange for an upfront fee or higher interest rate once the buydown feature expires. Buydowns typically offer large interest rate discounts (e.g., up to one to three percentage points, depending on the type of buydown). The costs associated with the buydown feature can be paid for by the home buyer, seller, builder, or mortgage lender.

While a buydown can make a home purchase more affordable at the beginning of the loan period, the long-term interest rates and mortgage payments on the loan can end up being substantially higher. This is why a borrower usually must initially qualify for the loan based on the full interest rate in effect after the buydown expires.

Assumable Mortgages

Assumable mortgages may be another way for buyers to circumvent high mortgage rates. An assumable mortgage is when a buyer takes over a seller's existing loan and loan terms and pays cash or takes out a second mortgage to cover the remainder of the purchase price.

This type of loan could be advantageous if the existing loan has a low enough interest rate, and the buyer has enough access to cash or financing to cover the difference between the sale price and outstanding balance of the assumed loan. Not all mortgage loans are assumable — generally they are limited to certain types of government-backed loans (e.g., FHA, VA loans).

Other Incentives

One type of incentive offered by lenders is for a buyer to pay an upfront fee at closing, also known as points. By paying points at closing, buyers can reduce their interest rates — usually by around .25 percent per point — and lower their monthly mortgage loan payments. To make paying points cost effective, buyers should plan on staying in the home for several years so that they can recoup the costs. Sometimes a home builder or seller will offer to pay for points on a mortgage in order to attract more potential buyers.

Another incentive, often referred to as a “future refi,” is one that allows borrowers to purchase a home at current interest rates, with the ability to refinance their loans at a later date. The refinancing can be free or the costs can be rolled into the new loan, depending on the lender and loan type. Keep in mind that there is typically a set time period for refinancing with these types of loans.

1-2) *Consumer Financial Protection Bureau, 2022*

HOME ENERGY TAX CREDITS

A couple of federal personal tax credits are available for the installation of certain energy efficient or clean energy property in your home. The energy efficient home improvement credit is available for qualifying expenditures incurred for an existing home or for an addition to or renovation of an existing home, but not for a newly constructed home. The residential clean energy property credit is available for qualifying expenditures incurred for either an existing home or a newly constructed home. For both credits, the home must be located in the United States and used as a residence by the taxpayer.

Energy Efficient Home Improvement Credit

The energy efficient home improvement credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures. There are limits on the allowable annual credit and on the amount of credit for certain types of qualified expenditures. The maximum annual credit amount may be up to \$3,200.

An annual \$1,200 aggregate credit limit applies to all building envelope components, energy property, and home energy audits (30% of costs up to \$150 for such audits). Building envelope components include exterior doors (30% of costs up to \$250 per door, up to a total of \$500); exterior windows and skylights (30% of costs up to \$600); and insulation materials or systems and air sealing materials or systems (30% of costs).

Energy property (30% of costs, including labor, up to \$600 for each item) includes central air conditioners; natural gas, propane, or oil water heaters, furnaces, and hot water boilers; and certain other improvements or replacements installed in connection with building envelope components or other energy property.

A separate annual \$2,000 aggregate credit limit (30% of costs, including labor) applies to electric or natural gas heat pump water heaters; electric or natural gas heat pumps; and biomass stoves and boilers.

The credit is not available after 2032.

Residential Clean Energy Property Credit

A 30% credit is available for certain qualified expenditures made by a taxpayer for residential clean energy property. This includes expenditures for solar panels, solar water heaters, fuel cell property, wind turbines, geothermal heat pump property, battery storage technology, and labor costs allocable to such property.

There is no overall dollar limit for this credit. For qualified fuel cell property, there is a general credit limit of \$500 for each half kilowatt of capacity. The credit is reduced to 26% for property placed in service in 2033, 22% for property placed in service in 2034, and no credit is available for property placed in service after 2034.

SHOULD YOU ORGANIZE YOUR BUSINESS AS AN LLC?

There's a certain amount of risk that comes with owning a business. Accidents can happen no matter how well a company is run, and a lawsuit could be devastating if the business is found to be at fault.

A limited liability company (LLC) is a business structure that offers many of the same legal protections as a corporation. Establishing an LLC creates a separate legal entity to help shield a business owner's personal assets from lawsuits brought against the firm by customers or employees.

In theory, the financial exposure of the owners (members) would be limited to their stake in the company, but exceptions may include any business debt they personally guarantee or misdeeds (such as fraud) they carry out. But just like a corporation, an LLC can lose its limited liability if the owner does not follow formalities that continue to exhibit the separate existence of the business — which is known as “piercing the veil.”

Beyond liability protection, there are some additional benefits associated with LLCs.

Tax efficiency. An LLC is a pass-through entity for tax purposes, so a firm may pass any profits and losses to the owners, who report them on their personal tax returns. Members can elect whether the LLC should be taxed as a sole proprietorship, a partnership, an S corporation, or a C corporation, provided that it qualifies for the particular tax treatment. For example, about 71.5% of business partnerships are LLCs, as are 8.8% of sole proprietorships.¹

Credibility. Starting an LLC may help a new business appear more professional than it would if it were operated as a sole proprietorship or partnership.

Simplicity. In most states, an LLC is easier to form than a corporation, and there may be fewer rules and compliance requirements associated with operating an LLC. The management structure is less formal, so a board of directors and annual meetings are not usually required.

Flexibility. Being registered as an LLC may facilitate growth because it's possible to add an unlimited number of owners and/or investors to the business, and ownership stakes may be transferred easily from one member to another. LLCs may also be owned by another business.

The specific rules for forming an LLC vary by state, as do some of the tax rules and benefits. A written operating agreement that outlines the division of ownership, labor, and profits is a common requirement. It generally costs more to form and maintain an LLC than it does to operate as a sole proprietor or general partnership, but for many businesses the benefits may outweigh the costs.

1) *Internal Revenue Service, 2022 (most recent data from 2019)*

IMPORTANT DISCLOSURES

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