OLD NORTH STATE TRUST

Helping Families Create and Enrich their Legacy for Generations to Come

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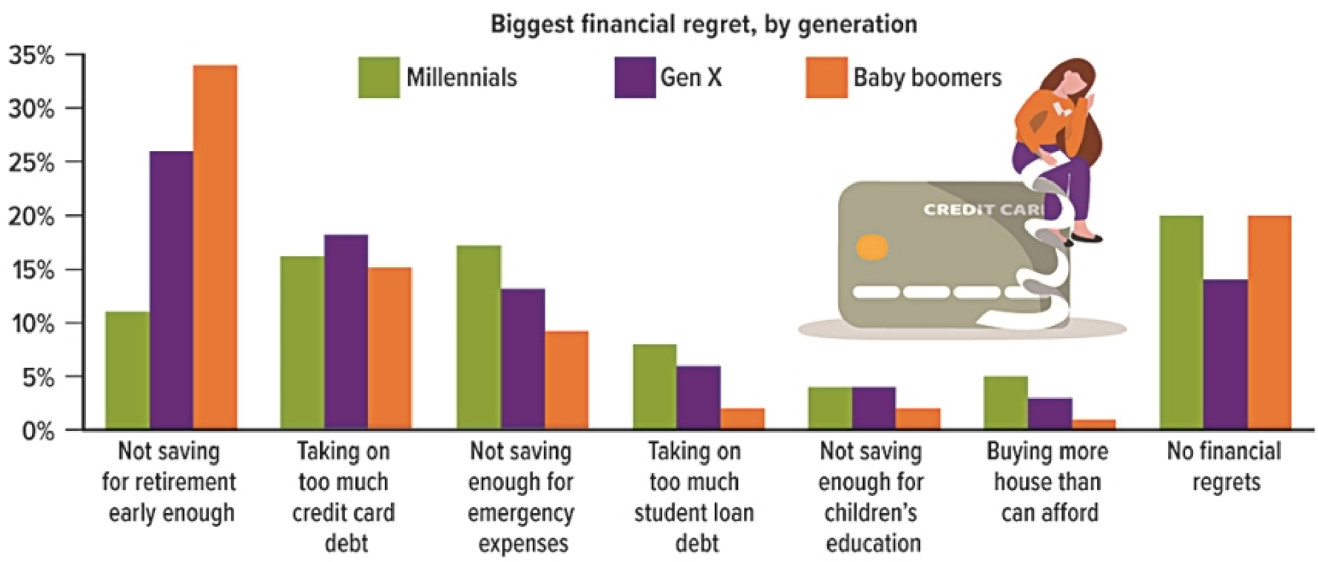
Alyce Phillips
Old North State Trust
Content Director
1250 Revolution Mill Dr., Ste • PO Box 1380, 27402 • Greensboro • NC • 27405
336-646-6678
info@oldnorthstatetrust.com • www.oldnorthstatetrust.com

Financial Regrets

A 2023 survey found that about three out of four U.S. adults had a financial regret. The most common were not saving for retirement early enough, taking on too much credit card debt, and not saving enough for emergency expenses. It's probably not surprising that the weight that people placed on these and other regrets varied by generation — and regret about not saving early enough for retirement was higher for those closer to retirement age.



Source: Bankrate, July 19, 2023 (categories not shown include "something else" and "don't know")

June 2024

A Pension Strategy that May Boost Your Income

If you participate in a traditional pension plan (also known as a defined benefit plan), your plan may offer several payout options including "qualified joint and survivor annuity" (QJSA) if you are married. A QJSA is an annuity that pays a dollar amount (usually monthly) for the rest of your life, with at least 50% of that amount continuing to your spouse after your death. However, if your spouse consents in writing, you can waive the QJSA and elect instead to receive a single-life annuity. With a single-life annuity, payments are made over your lifetime but stop upon your death. For example, if you receive just one payment after retirement and then die, the single-life annuity would end, and the plan would make no further payments.

Why elect a single-life option instead of the QJSA?

The single-life annuity generally pays a significantly larger pension benefit than the QJSA. That's because the payments are designed to last for one lifetime instead of two. Pension plan participants who want to maximize their monthly retirement income are often tempted to choose the single-life annuity for this reason. However, most pensioners are also concerned about providing for their spouses if they should die first.

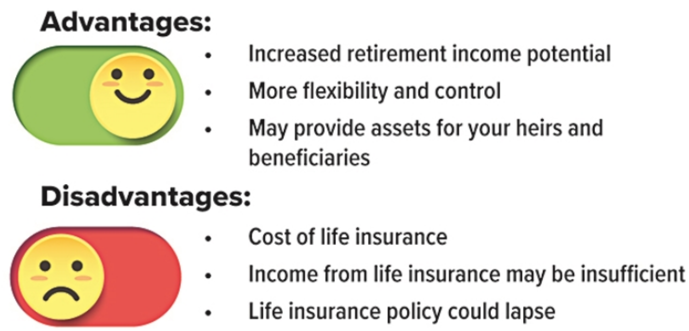
What is pension maximization?

Pension maximization is a strategy that may help solve this dilemma. The way it works is that your spouse waives the QJSA and you elect the single-life annuity. You then use the additional pension income to purchase insurance on your life, with your spouse named as beneficiary. If you die first, the pension payments will stop, but your spouse will receive the life insurance death proceeds free from federal income tax. The idea is that by coupling the larger pension payments with the purchase of a life insurance policy on your life, you may be able to increase your total income during retirement, while also providing for your spouse's financial future if you die first.

Is pension maximization right for you?

There are a number of factors to consider. Are you insurable? If not, pension maximization is not a viable strategy. How much will the life insurance cost? (If you are relatively young and in good health, the insurance premiums may be much more affordable than if you are older and/or in poor health.) How much more does the single-life annuity pay than the QJSA? The larger the benefits under the single-life annuity, the more life insurance you'll probably want to buy. (Also make sure to factor in any cost-of-living adjustment the pension plan may provide when analyzing your payment options.) How healthy is your spouse, and what is his/her life expectancy?

Advantages and Disadvantages of Pension Maximization



Are there income tax considerations?

The monthly retirement benefits you and your spouse receive from your pension are generally treated as taxable income, subject to federal (and possibly state and local) income tax. This is true regardless of whether you elect a single-life annuity payout or a QJSA. However, since the pension benefits are larger with a single-life annuity, electing that payout option will increase your taxable income during retirement. If you elect the QJSA payout, when the first spouse dies, the pension payout to the survivor will be included in the survivor's taxable income.

If you instead use the pension maximization strategy and die before your spouse, the life insurance death benefits will not be included in your surviving spouse's taxable income, because life insurance death benefits generally pass free from income tax to the beneficiary of the policy. Any earnings from investments of the life insurance proceeds by your surviving spouse (e.g., interest, dividends, and capital gains) may generally be included in your spouse's taxable income.

The pension maximization strategy is not for everyone, but it could be worth considering as you and your spouse evaluate your pension benefit options. (Note: Any guarantees associated with payment of death benefits, income options, or rates of return are based on the financial strength and claims-paying ability of the insurer. Policy loans and withdrawals will reduce the policy's cash value and death benefit.)

Caution: *While life insurance proceeds are generally free from income tax to the beneficiary, estate taxes are another matter. If this is a concern, you should consult a qualified estate planning attorney for appropriate strategies.*

Be sure to seek qualified professional guidance, since choosing a pension payout option and life insurance coverage can be complex and will impact both your financial future and your spouse's.

Should You Buy or Lease Your Next Vehicle?

New vehicle prices have skyrocketed these past few years, with the cost averaging well over $48,000 toward the end of 2023.[1] These increased costs, coupled with rising interest rates, mean that buying a vehicle can take a significant bite out of your budget. If you are in the market for a new vehicle, you might be wondering if leasing it would save you money.

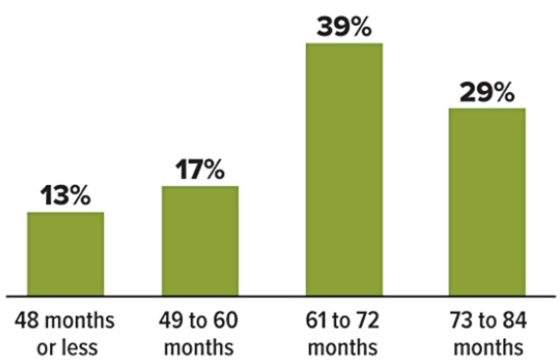
As a rule, if you plan on keeping a vehicle for a long period of time, it makes more sense to buy it. But if having the latest technology and safety features is important to you, leasing might be the best option, allowing you to drive a new vehicle every few years. To help you decide, you should also determine how each option fits into your lifestyle or budget. Here are some points to consider.

Ownership

When you buy a vehicle, you usually finance a portion of the purchase price and pay it back over time with interest. When the loan term ends and the vehicle is paid for, you own it. You can keep it as long as you like, and any retained value (equity) is also yours to keep.

When you lease a vehicle, you don't own it — the leasing company does — so you do not have any equity built up once the lease is over. At the end of the lease term, you can choose to either return the vehicle or buy it at its residual value, which is set forth in the lease. If you end up returning it early, the dealer may require you to pay a hefty fee. If you still need a vehicle at the end of the lease term, you'll need to start the leasing (or buying) process all over.

Share of new vehicle loans, by loan term



Source: Experian, 2023

Monthly payments

If you finance all or part of your new vehicle purchase, you will have a monthly payment that will vary based on the amount you finance, the interest rate, and the loan term. When comparing loans, it's important to look at the total amount of money you will end up paying over the life of the loan. While a longer loan term may give you a more affordable monthly payment, you will end up paying more money over the loan term.

In general, monthly lease payments are usually lower than monthly loan payments since you are mainly paying for the vehicle's depreciation during the lease term as opposed to the purchase price. This means that leasing may allow you to drive a more expensive vehicle than what you could otherwise afford.

Mileage

How much do you plan on driving? When you buy a vehicle, you can drive it as many miles as you want. However, a vehicle with higher mileage may be worth less if you plan to trade it in or sell it at some point down the road.

Vehicle leases come with up-front mileage limits, typically ranging from 12,000 to 15,000 miles per year. If you exceed these limits, you can end up incurring costly penalties in the form of excess mileage charges.

Maintenance

When you sell your vehicle, condition matters, so you may receive less if it hasn't been well maintained. As your vehicle ages, repair bills may be greater, something you typically won't encounter if you lease.

Generally, you will have to service a leased vehicle according to the manufacturer's recommendations. In addition, you'll need to return your vehicle with normal wear and tear (according to the leasing company's definition). Anything above normal wear and tear may result in excess charges.

Up-front costs

When you buy a vehicle, the up-front costs you incur may include the cash price or a down payment for the vehicle, taxes, title, and other fees.

The up-front costs associated with leasing a vehicle may include an acquisition fee, down payment, security deposit, first month's payment, taxes, title, and other fees.

Additional buying vs. leasing tips

Keep the following tips in mind when determining whether or not to buy or lease a vehicle:

- **Shop wisely.** Make sure you read the fine print and fully understand all terms or conditions.
- **Negotiate.** To get the best deal, be prepared to negotiate the price of the vehicle and the terms of any loan/lease offer.
- **Run the numbers.** Calculate both the short-term and long-term costs associated with each option.
- **Consider tax implications.** This is especially important if you use your vehicle for business and/or have an electric vehicle.

1) Kelley Blue Book, 2024

Birthday Benefits Quiz

Remember when you turned 16 and rushed to get your driver's license? Or earned the right to vote at 18 and enjoyed the privileges and responsibilities of adulthood at 21? There aren't many legal changes associated with birthdays after that until you turn 50, and then there are plenty.

Can you match these ages to the related federal benefits and tax responsibilities? One age will be used twice.

50 55 59½ 62 65 67 70 73 75

___ 1. Eligible for full Social Security benefits for those born in 1960 or later

___ 2. Earliest age to make catch-up contributions to a traditional IRA or an employer-sponsored retirement plan

___ 3. Eligible for maximum Social Security benefit

___ 4. Must begin taking required minimum distributions from most tax-deferred retirement plans, for those born from 1951 to 1959

___ 5. Eligible to enroll in Medicare

___ 6. Earliest age to make catch-up contributions to a health savings account

___ 7. Earliest eligibility age to begin taking reduced Social Security worker benefits

___ 8. Must begin taking required minimum distributions from most tax-deferred retirement plans, for those born in 1960 or later

___ 9. Eligible to withdraw money from a tax-deferred IRA or employer-sponsored retirement plan (for most employees) without incurring a 10% federal tax penalty

___ 10. Eligible to withdraw money from a tax-deferred employer-sponsored retirement plan without incurring a 10% federal tax penalty, for an employee who separates from service with the employer

For further information, visit irs.gov, socialsecurity.gov, and medicare.gov.

Answers

1. 67; 2. 50; 3. 70; 4. 73; 5. 65; 6. 55; 7. 62; 8. 75; 9. 59½; 10. 55 (50 or after 25 years of service for qualified public safety employees)