OLD NORTH STATE TRUST

Helping Families Create and Enrich their Legacy for Generations to Come

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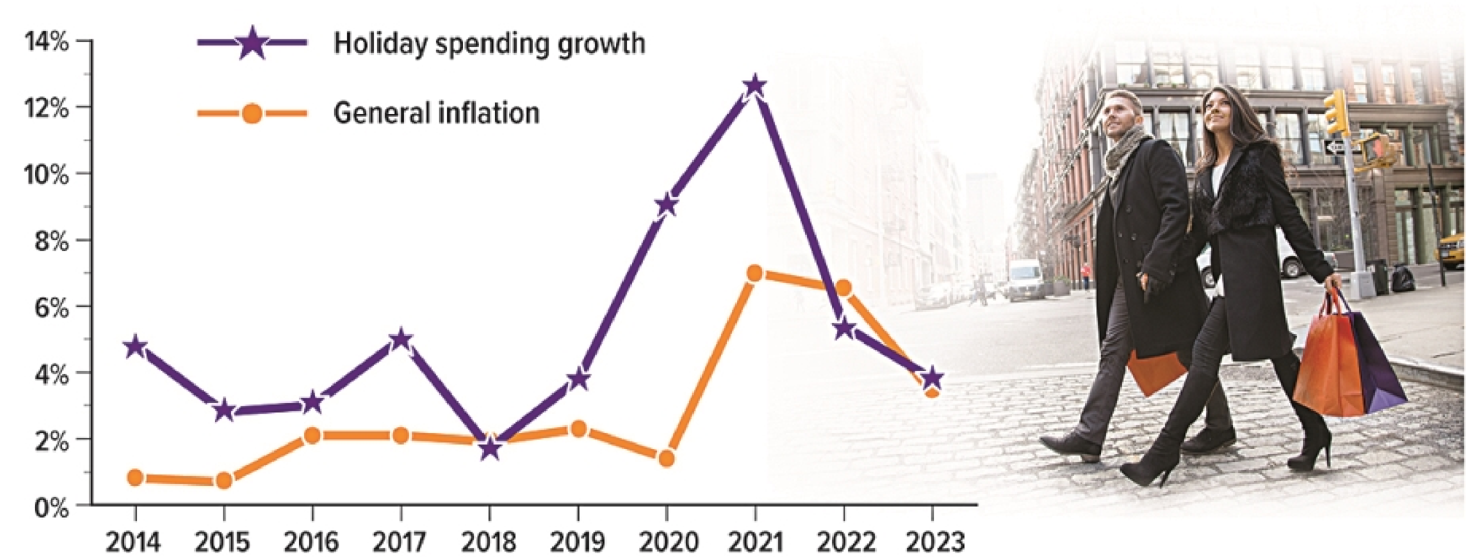
Will Holiday Spending Outpace Inflation?

Retail spending during the winter holiday months of November and December accounts for about 19% of total annual retail spending and is even more significant for some retail sectors.

In 2023, consumers spent $964.4 billion on retail goods and services during the holiday months. This was a 3.8% increase over 2022 and above the 3.4% rate of general inflation. Over the last decade, holiday spending has usually outpaced inflation, sometimes by a wide margin. With inflation slowing in 2024, this trend could continue.



Sources: National Retail Federation (NRF), January 17, 2024; U.S. Bureau of Labor Statistics, 2024 (In calculating retail sales, the NRF includes stores, online, and other non-store sales but excludes automotive dealers, gas stations, and restaurants.)

Would You Be Prepared for an Unplanned Early Retirement?

Most of us would prefer not to think about an unexpected (and unwelcome) early retirement, but it does happen frequently. In fact, nearly half of current retirees retired earlier than planned, and of that group, more than 60% did so due to changes at their company or a hardship, such as disability.[1] For that reason, it's a good idea to take certain steps now to help prepare for the unexpected.

What you can do now

Save as much as possible in tax-advantaged accounts. If you're forced to retire earlier than planned, your work-sponsored retirement plans, IRAs, and health savings accounts (HSAs) could become critical resources. HSA assets can be used tax-free to pay for qualified medical expenses at any time, and you can generally tap your retirement plan and IRA assets after age 59½ without penalty. Although ordinary income taxes apply to distributions from pre-tax accounts, qualified withdrawals from Roth accounts are tax-free.[2]

In addition, the IRS has identified several situations in which retirement account holders may be able to take penalty-free early withdrawals. These include disability, terminal illness, leaving an employer after age 55 (work-based plans only),[3] to pay for unreimbursed medical expenses that exceed 7.5% of your adjusted gross income, and to pay for health insurance premiums after a job loss (IRAs only).

Pay down debt. Generally, it's wise to enter retirement (especially when unexpected) with as little debt as possible. Ensuring that your financial plan includes a strategy for paying down student loans, credit card debt, auto loans, and mortgages can help you minimize your income needs later in life.

Know your bare-bones budget. Another way to help cushion the shock of an unexpected early retirement is knowing exactly how much you spend each month on your basic necessities, including housing, food, utilities, transportation, and health care. Maintaining a written budget throughout life's ups and downs will help you quickly identify how much income you'd need over the short term while you work on a longer-term income-replacement strategy.

Maintain adequate levels of disability insurance. Your employer may offer group coverage at reduced rates; however, you lose those benefits if your employment is terminated. Private disability income insurance can help you secure coverage specific to your needs, and since the premiums are typically paid with after-tax dollars, any benefits would generally be tax-free (unlike work-sponsored coverage that is paid with pre-tax dollars).

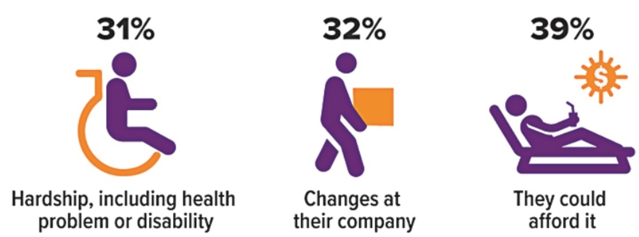
Understand Social Security benefits. If you stop working due to disability, you may qualify for Social Security Disability Insurance benefits if you meet certain requirements. You must have earned a certain number of work credits in a job covered by Social Security and have a physical or mental impairment that has lasted or is expected to last at least 12 months or result in death. If you remain eligible, benefits may continue up to age 65 and then convert to Social Security retirement benefits.

If you need to retire earlier than planned for reasons unrelated to disability and are eligible for Social Security retirement benefits, you can apply as early as age 62. However, starting payments prior to your full retirement age (66 or 67, depending on year of birth) will result in a permanently reduced monthly benefit.

For more information on Social Security disability and retirement benefits, visit the Social Security Administration's website at ssa.gov.

Consider your health insurance options. Terminating employment prior to age 65 could leave you without health insurance. You may opt to continue your employer-sponsored health coverage for a limited period (permitted through COBRA, the Consolidated Omnibus Reconciliation Act), although this can be quite expensive. If you're married and your spouse works, you may get coverage under their plan. You may also seek coverage through the federal or a state-based health insurance marketplace. If you receive Social Security disability benefits, you'd automatically qualify for Medicare after 24 months.

Why 49% of Retirees Retired Earlier Than Planned



Note: Retirees could have retired for more than one reason.
Source: Employee Benefit Research Institute, 2024

Don't be caught off guard

Don't wait for an unwelcome surprise. Take steps now to help ensure your overall financial plan considers the "what-if" of an unexpected early retirement.

1) Employee Benefit Research Institute, 2024

2) Qualified Roth withdrawals are those made after a five-year holding period and after the account owner dies, becomes disabled, or reaches age 59½. The penalty for early retirement account distributions and nonqualified withdrawals from Roth accounts is 10%. Nonqualified withdrawals from HSAs will be subject to ordinary income tax and a 20% penalty. After age 65, individuals can take money out of HSAs penalty-free, but regular income taxes will apply to funds not used for qualified medical purposes.

3) Age 50 or after 25 years of service for public safety officers

ABLE Turns 10

A decade ago, the Stephen Beck Jr., Achieving a Better Life Experience (ABLE) Act was signed into law. The idea for it originated with a group of parents in Virginia who saw that individuals with disabilities and their families needed a way to save for the future without sacrificing eligibility for much-needed federal benefits. One of those parents was Beck, a congressman who had a daughter with Down syndrome. It took years for a bipartisan group in Congress, supported by many advocates, to develop the bill that was finally passed in December 2014.[1]

Ten years later, 46 states and the District of Columbia offer ABLE accounts.[2] These tax-advantaged accounts enable Americans with significant disabilities that began before age 26 to save or invest funds that can be used for qualified disability expenses. In honor of ABLE's tenth anniversary, here are a few key facts about ABLE accounts.

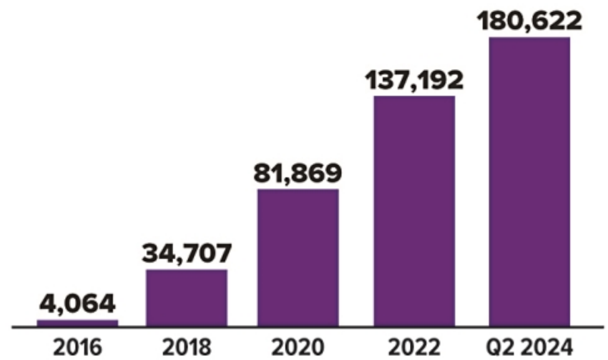
Most state programs are open to nonresidents. Individuals can open an ABLE account in their own state if it has an ABLE program or in any state that allows nonresidents to join (most do).

Accounts offer several tax benefits. Any earnings on contributions accumulate tax deferred at the federal level (and in some cases at the state level). When money is withdrawn, the earnings on these distributions will be tax-free if used to pay qualified expenses. Though no federal income tax deduction is available, some states offer tax incentives to residents, such as a deduction for contributions. Before investing in an ABLE plan, consider whether your state offers an ABLE plan that provides residents with favorable state tax benefits. Consult a tax professional for more information. ABLE accounts may be protected from creditors if you invest in your own state's program, depending on the state.

Having an account generally does not affect eligibility for public benefits. People with disabilities often rely on Supplemental Security Income (SSI), Medicaid, Medicare, and other public benefits. However, eligibility for these benefits depends on meeting a means or resource test. To qualify, individuals can have only $2,000 in countable assets, such as savings and retirement funds. Because funds in an ABLE account generally do not count toward this asset limit, people may put money aside for their future needs without jeopardizing their eligibility for public benefits. (SSI benefits may be temporarily affected once an account reaches $100,000.)

Contributions can be made by the account owner or others. Multiple people may contribute, including the individual with the disability, family members, friends, and employers. Contributions may also come from sources such as special needs trusts, estates, or 529 plan rollovers. Annual and lifetime contribution limits apply. Contributions from all donors combined during the year can't exceed the annual gift tax exclusion, which is $18,000 in 2024. ABLE account owners who work and who don't have an employer-sponsored retirement account, may save an additional $14,580 from their earnings in 2024 ($16,770 in Hawaii and $18,210 in Alaska). Each state sets its own lifetime limit.

Growing Number of ABLE Accounts



Source: ABLE today, 2024

Funds can be spent on a wide range of items. The definition of qualified disability expenses is broad and generally includes housing costs, home improvement and modification, transportation, health care, education, employment training, assistive technology, and personal assistance, among others.

The eligibility age is changing. Today, to be eligible for an ABLE account, the disability must have begun before age 26, but starting in 2026, this age will increase to 46, giving access to an estimated six million more Americans, including one million veterans.[3]

Other planning tools may also be used. An ABLE account is meant to be an additional tool — not the only tool — that can be used to save for future expenses. Other tools, which include third-party and special needs trusts, have unique benefits and drawbacks, and may also be suitable. (The use of trusts involves a complex web of tax rules and regulations and incur up-front costs and often have ongoing administration fees.)

Participating in an ABLE account may involve investment risk, including the possible loss of principal, and there can be no assurance that any investing strategy will be successful. Carefully consider a portfolio's level of risk, charges, and expenses before investing. The program's official disclosure statement and applicable prospectuses, contain this and other information about the investment options, underlying investments, and the investment company.

1–2) ABLE today, 2024; 3) ABLE National Resource Center, 2024

Three Ways to Invest in Yourself

The end of the year is a good time to reflect on everything you've accomplished and given to others. As you set resolutions for the new year, why not think about how investing in yourself might give you a fresh start?

Investing in yourself means focusing on your personal growth and well-being. By fostering a stronger "you," you might be in a better position to give your time and energy to other people and things, including your financial goals, which require discipline, perseverance, and often sacrifice to maintain a robust savings effort month after month.

Here are three areas you might target.

Your health and well-being

Staying active is critical to maintaining good physical and mental health, and it might make it easier for you to tackle all the tasks, financial and otherwise, on your plate each day. Feeling sluggish, stressed, or sore? Having trouble sleeping? To get on a better health track, consider joining a gym, working with a personal trainer or nutritionist, taking a fitness class, experimenting with a wearable fitness tracker, or buying home exercise equipment. Or you might invest in an ergonomic office chair, a stand-up work desk, or a new bed and pillows.

What about your diet? To take your eating habits to the next level, consider investing in some new kitchen equipment and/or appliances; signing up for a food delivery service that sends ingredients for healthy meals right to your door; or trying new cookbooks and recipes to discover dishes you enjoy.

Could you use more peace and quiet in a 24/7 world? To enhance your inner solitude, you might invest in a cozy chair, small desk, greenery, soft lighting, and assorted furnishings to create a quiet spot for reading, reflection, or meditation.

Your lifelong learning

The world is a big place, and there is so much to see and do. Trying something new outside your normal routine or comfort zone can provide inspiration and a fresh perspective. Possibilities include traveling to a new destination, investing in new equipment for outdoor recreation, enrolling in an adult education class, or getting involved in a new project or hobby.

Your everyday life

Still wearing clothes, eyeglasses, or a hairstyle from your younger days? Trying to get by using an older laptop, phone, or printer? It might be time to update your wardrobe, look, or tech gadgets.

By investing in yourself today, not only might you feel better now, but you might reap future benefits, too, in the form of potentially lower health-care costs, a wider social circle, expanded hobbies and experiences, and a new perspective on life.