3Q24

The Financial Solutions Advisor

Inside this issue:

Economic & Market Perspectives

Market crosscurrents continue to be confusing

Growth anxieties have begun to creep into the market following some mildly disappointing U.S. economic data in the past few weeks. Economy-concerned investors argue that the drag from earlier monetary tightening will become increasingly evident in coming months (despite having made the same claim in both 2022 and 2023). It is likely that interest rates have not reached a sufficiently restrictive level to end the economic expansion. The U.S. consumer and corporate sector still have reasonable income growth and healthy balance sheets that should ensure continued resilience, absent some exogenous shock.

Markets should applaud slower U.S. economic growth as a necessary condition to prevent the Fed from hiking interest rates in the near term given a positive output gap and the recent rising trend in core inflation. Meanwhile, there are encouraging indications from the euro area and parts of the emerging world that global growth momentum is improving, including solidifying upturns in manufacturing and trade. Our base-case scenario is that economic growth in the U.S. will weaken but will improve overseas. Inflation in major economies will remain sticky at well-above central bank target levels, and most central banks (including the ECB) will only trim interest rates, rather than embark on a significant easing cycle.

The investment landscape is likely to be choppy, as investors fear a moderation of U.S. economic growth and uncertainty about the Fed outlook. Bonds may stay well bid in the near term, but we continue to expect another up leg as growth outside the U.S. gains traction, but central banks will likely cut less than markets are discounting. Rich valuations and elevated earnings expectations temper our enthusiasm for U.S. stocks.

Commodities are a mixed bag. Sturdy global growth will be a positive for base metals and energy demand, but while oil prices have upside, previously overheated copper prices are vulnerable to further near-term downside. The backdrop is supportive for gold in the near term, but prices are elevated in real terms. The election will almost certainly be acrimonious, and given the sharply different objectives of the two main parties, policy uncertainty is likely to intensify.

Conclusion

Improving global growth momentum and sticky inflation imply fewer central bank rate cuts over the next six to 12 months than currently discounted. An improving global economy (especially in the U.S.) should allow the current uptrend in forward earnings expectations to persist, thereby underpinning global equity prices. We expect the broadening of global economic growth momentum from the U.S. to the rest of the world over the next six to 12 months to boost the relative earnings and performance of select non-U.S. markets

Source: Robert C. Doll, Chief Executive Officer, Chief Investment Officer, Crossmark Global Investments

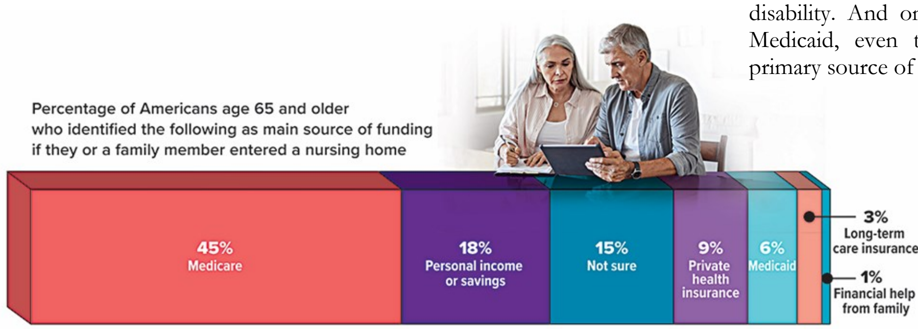
2024 Returns

S&P 500	*15.29%*
NASDAQ	*17.47%*
Russell Small Cap	*1.73%*
Russell Mid Cap	*4.96%*
MSCI EAFE	*5.34%*
MSCI World	*11.75%*
Barclay US Agg. Bond	*-0.71%*
Barclay Municipal Bond	*-0.40%*

How Would You Pay for Long-Term Care?

According to the U.S. Department of Health and Human Services, seven out of 10 people age 65 and over will need some type of long-term care. Medicare only pays for skilled services or rehabilitative care in a nursing home for a maximum of 100 days, and unfortunately, it does not pay for non-skilled assistance with activities of daily living, including walking, bathing, dressing, and many other long-term care services.

Despite this limited coverage, almost half of Americans age 65 and older said that Medicare would be the main source of funding if they or a loved one entered a nursing home due to a long-term illness or disability. And only 6% identified Medicaid, even though it is the primary source of such funding.



Source: Kaiser Family Foundation, 2023 (may not total 100% due to rounding)

Contact us:

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 *Main*
773.714.1550 *Facsimile*
www.fsadvisorygroup.com

Saving for College: 529 Plan vs Roth IRA

529 plans were created in 1996 to give families a tax-advantaged way to save for college. Roth IRAs were created a year later to give people another tax-advantaged way to save for retirement. Along the way, some parents began using Roth IRAs as a college savings tool. And now, starting in 2024, extra funds in a 529 plan can be rolled over to a Roth IRA for the same beneficiary. Here's how the two options compare in a few key areas.

Contribution rules

529 plan: Anyone can open a 529 account. In 2024, individuals can contribute up to $18,000 ($36,000 for married couples) without triggering gift tax implications. And under a special accelerated gifting rule unique to 529 plans, individuals can make a lump sum contribution in 2024 up to $90,000 ($180,000 for married couples) with no gift tax implications if they elect to spread the gift over five years. Lifetime contribution limits for 529 plans are high — most plans have lifetime limits of $350,000 and up (limits vary by state).

Roth IRA: Not everyone can contribute to a Roth IRA. In 2024, single filers must have a modified adjusted gross income (MAGI) of $146,000 or less and joint filers must have a MAGI of $230,000 or less. (A partial contribution is allowed for single filers with a MAGI between $146,000 and $161,000, and joint filers with a MAGI between $230,000 and $240,000.) In 2024, the annual contribution limit is $7,000 ($8,000 for people age 50 and older).

Tax benefits

529 plan: Earnings in a 529 account accumulate tax-deferred and are tax-free when withdrawn if funds are used to pay the beneficiary's qualified education expenses, a broad term that includes tuition, fees, housing, food, and books. States generally follow this tax treatment, and some states may offer a tax deduction for 529 contributions. If funds in a 529 account are used for a nonqualified expense, the earnings portion of the withdrawal is subject to income tax and a 10% federal penalty.

Roth IRA: Earnings in a Roth IRA also accumulate tax-deferred and are tax-free if a distribution is qualified. A distribution is qualified if a five-year holding period is met *and* the distribution is made: (1) after age 59½, (2) due to a qualifying disability, (3) to pay certain first-time home buyer expenses, or (4) to your beneficiary after your death. If your distribution isn't qualified, the earnings portion of the withdrawal is subject to income tax and, if you're younger than 59½, a 10% early withdrawal penalty (unless an exception applies). One exception to this penalty is when the withdrawal is used to pay college expenses.

529 Plan Snapshot (2023)

Source: ISS Market Intelligence, 529 Plan Market Highlights, Q4 2023

So, your age is key. Once you've met both the age 59½ and five-year holding requirements, money withdrawn from your Roth IRA to pay college expenses is tax-free. But even though withdrawing funds before age 59½ for college expenses won't trigger an early withdrawal penalty, you *may* owe income tax on the earnings. (Nonqualified distributions draw out contributions first and earnings last, so you could withdraw up to the amount of your contributions and not owe income tax.)

Investment options and flexibility

529 plan: You're limited to the investment options offered by the 529 plan. Plans typically offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with varying levels of risk, fees, and management goals. If you're unhappy with the investment performance of the options you've chosen, you can change the investment options on your *current* contributions only twice per year, per federal law.

Roth IRA: With a Roth IRA, you generally can choose from a wide range of investments, and you can typically buy and sell investments whenever you like (usually incurring transaction costs and fees), so they offer a lot of flexibility.

There are generally fees and expenses associated with investing in a 529 plan, as well as the risk that investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan can vary from state to state and should be discussed with a legal and/or tax professional. States offering their own 529 plans may provide their residents and taxpayers with exclusive advantages and benefits, which may include financial aid, scholarship funds, and protection from creditors.

Before investing in a 529 plan, consider the investment objectives, risks, charges, expenses, investment options, underlying investments, and the investment company, which are available in the official disclosure statement and applicable prospectuses. Contact your financial professional to obtain a copy.

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Social Security is complex, and the details are often misunderstood even by those who are already receiving benefits. It's important to understand some of the basic rules and options and how they might affect your financial future.

Full retirement age (FRA)
Once you reach full retirement age, you can claim your full Social Security retirement benefit, also called your primary insurance amount or PIA. FRA ranges from 66 to 67, depending on your birth year (see chart).

Claiming early
The earliest you can claim your Social Security retirement benefit is age 62. However, your benefit will be permanently reduced if claimed before your FRA. At age 62, the reduction would be 25% to 30%, depending on your birth year. Your benefit may be further reduced temporarily if you work while receiving benefits before FRA and your income exceeds certain levels. However, when you reach FRA, an adjustment is made, and over time you will regain any benefits lost due to excess earnings.

Claiming later
If you do not claim your benefit at FRA, you will earn delayed retirement credits for each month you wait to claim, up to age 70. This will increase your benefit by two-thirds of 1% for each month, or 8% for each year you delay. There is no increase after age 70.

Spousal benefits
If you're married, you may be eligible to receive a spousal benefit based on your spouse's work record, whether you worked or not. The maximum spousal benefit, if claimed at your full retirement age, is 50% of your spouse's PIA (regardless of whether he or she claimed early) and doesn't include delayed retirement credits. If you claim a spousal benefit before reaching your FRA, your benefit will be permanently reduced.

Dependent benefits
Your dependent child may be eligible for benefits after you begin receiving Social Security if he or she is unmarried and meets one of the following criteria: (a) under age 18, (b) age 18 to 19 and a full-time student in grade 12 or lower, (c) age 18 or older with a disability that started before age 22. The maximum family benefit is equal to about 150% to 180% of your PIA, depending on your situation.

Survivor benefits
If your spouse dies, and you have reached your FRA, you can claim a full survivor benefit — 100% of your deceased spouse's PIA and any delayed retirement credits. Note that FRA is slightly different for survivor benefits: 66 for those born from 1945 to 1956, gradually rising to 67 for those born in 1962 or later.

You can claim a reduced survivor benefit as early as age 60 (age 50 if you are disabled, or at any age if you are caring for the deceased's child who is under age 16 or disabled, and receiving benefits). If you are eligible for a survivor benefit and a retirement benefit based on your own work record, you could claim a survivor benefit first and switch to your own retirement benefit at your FRA or later, if it would be higher.

Dependent children are eligible for survivor benefits, using the same criteria as dependent benefits. Dependent parents age 62 and older may be eligible for survivor benefits if they received at least half of their support from the deceased worker at the time of death.

Divorced spouses
If you were married for at least 10 years and are unmarried, you can receive a spousal or survivor benefit based on your ex's work record. If your ex is eligible for but has not applied for Social Security benefits, you can still receive a spousal benefit if you have been divorced for at least two years.

These are just some of the fundamental facts to know about Social Security. For more information, including an estimate of your future benefits, see ssa.gov.

Claiming Early or Later

Year of birth	Full retirement age (100% of PIA)	Worker benefit at age 62: percentage of PIA	Worker benefit at age 70: percentage of PIA
1943–54	66	75.00%	132.00%
1955	66 and 2 months	74.17%	130.67%
1956	66 and 4 months	73.33%	129.33%
1957	66 and 6 months	72.50%	128.00%
1958	66 and 8 months	71.67%	126.67%
1959	66 and 10 months	70.83%	125.33%
1960 & later	67	70.00%	124.00%

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Please contact us if you would like to receive this publication by e-mail.

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 *Main*
773.714.1550 *Facsimile*
www.fsadvisorygroup.com

Do You Need to Pay Estimated Tax?

Taxpayers are required to pay most of their tax obligation during the year by having tax withheld from their paychecks or pension payments, or by making estimated tax payments. Estimated tax is the primary method used to pay tax on income that isn't subject to withholding. This typically includes income from self-employment, interest, dividends, and gain from the sale of assets. Estimated tax is used to pay both income tax and self-employment tax, as well as other taxes reported on your income tax return.

Generally, you must pay federal estimated tax for the current year if: (1) you expect to owe at least $1,000 in tax for the current year, and (2) you expect your tax withholding and refundable tax credits to be less than the smaller of (a) 90% of the tax on your tax return for the current year, or (b) 100% of the tax on your tax return for the previous year (your tax return for the previous year must cover 12 months).

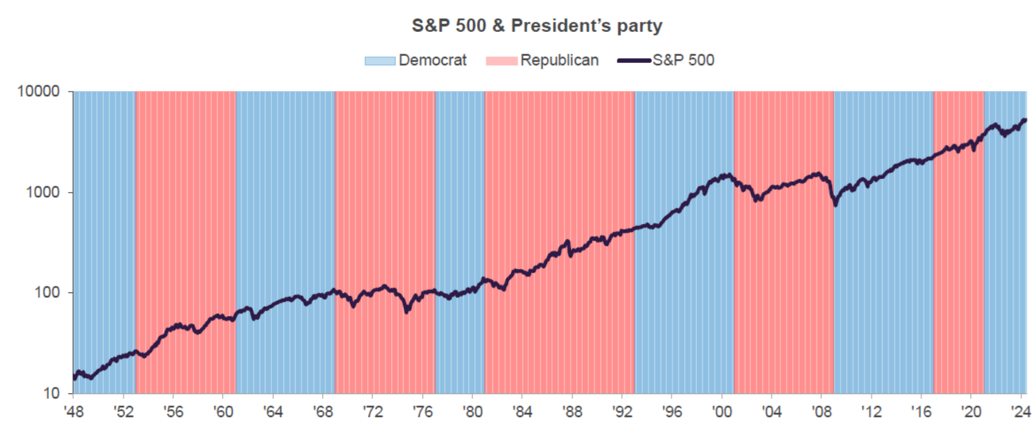
There are special rules for farmers, fishermen, and certain high-income taxpayers. If at least two-thirds of your gross income is from farming or fishing, you can substitute 66.67% for 90% in general rule (2)(a) above. If your adjusted gross income for the previous year was more than $150,000 ($75,000 if you were married and filed a separate return for that year), you must substitute 110% for 100% in general rule (2)(b) above.

If all of your income is subject to withholding, you probably don't need to pay estimated tax. If you have taxes withheld by an employer, you may be able to avoid having to make estimated tax payments, even on your nonwage income, by increasing the amount withheld from your paycheck.

You can use Form 1040-ES to figure your estimated tax. They can help you determine the amount you should pay for the year through withholding and estimated tax payments to avoid paying a penalty. The year is divided into four payment periods. After you have determined your estimated tax for the year, you then determine how much you should pay by the due date of each payment period to avoid a penalty for that period. If you don't pay enough during any payment period, you may owe a penalty even if you are due a refund when you file your tax return.

Markets Have Presented Opportunities And Risks Under Both Political Parties

Elections matter, but it is important not to look at them in isolation. The business cycle matters, as do valuations, geopolitics, monetary policy, and other factors.



Data source: Truist IAG, Bloomberg