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Economic & Market Perspectives

The Federal Reserve (Fed) surprised some by beginning the rate cut cycle with a 50 basis point cut. While delayed by a day, the stock market celebrated as the Fed provided dovish guidance to the end of 2025. The Fed believes that the inflation threat is over and is now keen to support the economy.

The recent economic slowdown, evident primarily in certain areas of consumption and labor, as well as subdued inflation has caused the Fed to start the cutting cycle. Some argue that the US economy is receiving monetary assistance, which will prove reflationary. If true, the ongoing rise in house prices will persist, which is at odds with the Fed's claim that policy has been highly restrictive. Improved housing activity will add to an economy that is already growing well above its long-run potential. While a progressively lower Fed fund rate may cap Treasury

yields for a time, the latter are also likely to have limited downside since rate cut expectations are already aggressive. The biggest beneficiary of Fed rate costs might ultimately be risk asset markets including stocks, bonds, and house prices.

The argument goes on to say the Fed will be cutting rates for an extended period unless economic growth meaningfully inflects higher, which in turn would further boost already rising corporate earnings. Lower rates will support, if not boost, valuations, (especially for previously lagging, relatively less expensive US stock sectors, and for non-US markets), and if rate cuts stop due to better growth, then the bullish baton will be passed to corporate earnings. What this logic perhaps misses is the delayed impact of the longest and fastest rate hike cycle in modern history, which may just now be

2024 Returns

S&P 500	22.08%
NASDAQ	19.97%
Russell Small Cap	11.17%
Russell Mid Cap	14.63%
MSCI EAFE	12.99%
MSCI World	18.86%
Barclay US Agg. Bond	4.45%
Barclay Municipal Bond	2.30%

impacting the economy.

The Fed is positioning for the elusive soft-landing scenario. While a difficult balancing act, the Fed is hoping that rate cuts will offset any economic weakness, and assure inflation is nearly conquered.

Source: Bob Doll, CEO, CIO, Crossmark Global Investments

How the Typical American Family Pays for College

The typical family uses a combination of income, savings, grant aid, and loans to pay for college. For the past several years, income and savings from parents and students have consistently covered about half of the total cost, with grant aid covering about one quarter of

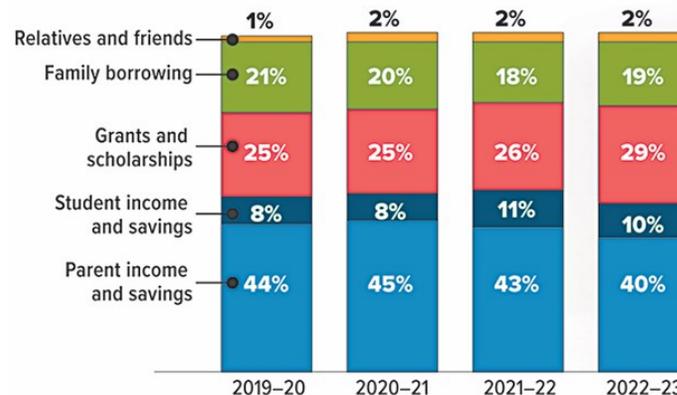
the total cost and loans covering most of the remainder.

Starting a college fund early and aggressively looking for grant aid from colleges can help families reduce the amount they may need to borrow. A net price calculator,

available on every college website, can help families estimate how much grant aid a student might receive at a particular college.

Source: How America Pays for College 2023, Sallie Mae

How the typical family pays for college, percent of funding sources



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If You Don't Have a Will Yet, Why Not?



A will is a fundamental estate planning document. It outlines how you wish your property to be distributed, who should handle matters related to settling your estate, and who you want to care for your children after you pass, among other things.

If you don't yet have a will, you're not alone. According to a recent survey by Caring.com, 64% of Americans think having a will is important, but only 32% have one.¹ There are many reasons people put off drafting a will — here are four you might relate to.

1. Just haven't gotten around to it

It's easy to procrastinate when it comes to drafting a will. Even if it's something you think you should do, it's probably not high on the list of things you want to do. Perhaps you're uncomfortable thinking about your own mortality, or maybe you're worried about how complicated or costly the process will be.

Focusing on some of the benefits of having a will might give you the motivation you need to get started. A will is a way to make sure your loved ones are cared for and that your last wishes are honored. A legally binding will gives you more control over what happens to your property and helps ensure that your treasured possessions end up in the right hands. You can name an executor or personal representative who you believe will responsibly handle the details of settling your estate. And having a will is especially important if you have minor children and want to protect them by naming a guardian who will best be able to handle the responsibility of raising them.

If making these decisions sounds daunting, there's help available. An estate planning attorney can help address your concerns and guide you through the process.

2. It's not the right time

Too young? Not married? Childless? In good health? Not wealthy enough? People often think it's not the right time to draft a will, but there's no better time than now. Most adults have money or possessions that

they would like to leave to someone, and waiting until the circumstances seem perfect is risky. Health problems may come on suddenly, and trying to draft a will at that time can be stressful. Even worse, if you suddenly become incapacitated, it may be too late.

Your life will inevitably change as the years pass, and any will drafted now can (and should) be reviewed and revised occasionally to account for family and financial changes.

3. Don't think it's important

Unless you have personal experience with settling an estate, you may underestimate the consequences of dying without a will (called dying intestate). Decisions will be made by the court on your behalf, and your property

will be distributed according to the laws of your state. Who is entitled to your assets will depend on those laws, and handling that when there is no will can be especially complicated, time-consuming, stressful, and expensive for your family.

4. Family dynamics are complex

Putting off drafting a will might seem logical when you are facing deep-rooted family issues or complicated situations. Why not just leave it to others to sort out after you're gone? Unfortunately, not having a legal document that outlines your specific intentions can make an already difficult situation worse. Leaving the disposition of your assets up to the court to decide may have unintended consequences for family members and lead to irreparable rifts or even litigation.

A will is only part of an estate plan

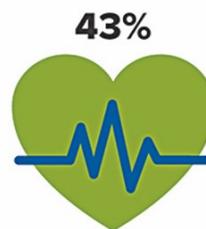
Finally, as important as a will is, it's just one component of your estate plan. You may need other legal documents such as trusts, powers of attorney, and advance medical directives to fully address your needs. Ask an estate planning attorney to evaluate your individual situation and help you put a plan in place.

1) 2024 Wills and Estate Planning Study, Caring.com

Motivating Situations

Almost one out of four Americans without a will say that nothing would motivate them to get one. Here are the percentages of those without a will who say these situations would motivate them.

Source: 2024 Wills and Estate Planning Study, Caring.com (multiple responses allowed)



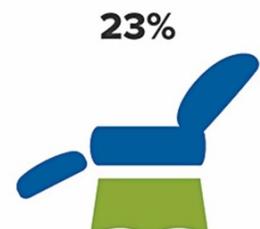
43%

Medical diagnosis/
health concern



24%

Home
purchase



23%

Retirement/other
age milestone



21%

Family
expansion



17%

Death of
loved one



15%

Employer
benefit

It's Complicated: Inheriting IRAs and Retirement Plans



The SECURE Act of 2019 dramatically changed the rules governing how IRA and retirement plan assets are distributed to beneficiaries. The new rules, which took effect for account owner deaths occurring in 2020 or later, are an alphabet soup of complicated requirements that could result in big tax bills for many beneficiaries.

RMDs and RBDs

IRA owners and, in most cases, retirement plan participants must start taking annual required minimum distributions (RMDs) from their non-Roth accounts by April 1 following the year in which they reach RMD age (see table). This is known as their required beginning date (RBD).

Likewise, beneficiaries must take RMDs from inherited accounts (including, in most cases, Roth accounts). The timing and amount of an individual beneficiary's RMDs depend on several factors, including the relationship of the beneficiary to the original account owner and whether the original owner had reached the RBD.

Three key points apply to both owners and beneficiaries: (1) individuals must pay income taxes on the taxable portion of any distribution, (2) the larger the RMD, the higher the potential tax burden, and (3) failing to take the required amount generally results in an additional excise tax.¹

The age that determines an account owner's RBD depends on the account owner's date of birth.

Spouse as sole beneficiary

Spouses who are sole beneficiaries have the most options for managing inherited accounts. By default, a surviving spouse beneficiary is treated as what's known as an eligible designated beneficiary (EDB) with certain advantages (see next section, "EDBs and DBs"). And if the deceased spouse died before the RBD, a surviving spouse EDB who is the sole owner can wait until the year the deceased would

have reached RMD age to begin distributions.

Alternatively, a surviving spouse who is the sole owner can generally roll over the inherited account to their own account or elect to be treated as the account owner (rather than as an EDB). In these cases, the rules for account owners would apply. However, there is a potential drawback to this move: if the surviving spouse is younger than 59½, a 10% early distribution penalty may apply to subsequent withdrawals unless an exception applies.

more beneficial.²

By contrast, DBs are required to liquidate inherited assets within 10 years, which could result in unanticipated and hefty tax bills. If the account owner dies before the RBD, the beneficiary can leave the account intact until year 10. If the owner dies on or after the RBD, a DB must generally take annual RMDs based on their own life expectancy in years one through nine, then liquidate the account in year 10.

Other considerations

Work-sponsored retirement plans are not required to offer all distribution options; for example, an EDB may be required to follow the 10-year rule. However, both EDBs and DBs may roll eligible retirement plan assets into an inherited IRA, which may offer more options for managing RMDs.

This is just a broad overview of the complicated new rules as they apply to individual beneficiaries. If an account has multi

Date of birth	RMD age
Before July 1, 1949	70½
July 1, 1949, through 1950	72
1951 to 1959	73
1960 or later	75

EDBs and DBs

The SECURE Act separated other individual beneficiaries into two groups: EDBs and designated beneficiaries (DBs). EDBs are spouses and minor children of the deceased, those who are not more than 10 years younger than the deceased, and disabled and chronically ill individuals. DBs are essentially everyone else, including adult children and grandchildren.

EDBs have certain advantages over DBs. If the account owner dies before the RBD, an EDB is able to spread distributions over their own life expectancy. If the account owner dies on or after the RBD, an EDB may spread distributions over either their own life expectancy or that of the original account owner, whichever is

ple designated beneficiaries, or if a beneficiary is an entity such as a trust, charity, or estate, other rules apply. Beneficiaries should seek the assistance of an estate-planning attorney before making any decisions.

¹) The IRS has waived this tax as it applies to the DB 10-year rule through 2024.

²) An inherited account must be liquidated 10 years after an EDB dies or a minor child EDB reaches age 21.

Thinking of Selling Your Home? Be Aware of Capital Gains Taxes

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The Taxpayer Relief Act of 1997 provided homeowners who sell their principal residence an exclusion from capital gains taxes of \$250,000 for single filers and \$500,000 for joint filers. At that time, the average price of a new home was about \$145,000, so this exclusion seemed generous and allowed more Americans to move freely from one home to another.¹ Unfortunately, the exclusion was not indexed to inflation, and what seemed generous in 1997 can be restrictive in 2024.

Capital gains taxes apply to the profit from selling a home, so they may be of special concern — and potential surprise — for older homeowners who bought their homes many years ago and might yield well over \$500,000 in profits if they sell. In some areas of the country, a home bought for \$100,000 in the 1980s could sell for \$1 million or more today.² At a federal tax rate of 15% or 20% (depending on income) plus state taxes in some states, capital gains taxes can take a big bite out of profits when selling a home. Fortunately, there are some things you can do to help reduce the taxes.

Qualifying for exclusion

In order to qualify for the full exclusion, you or your spouse must own the home for at least two years during the five-year period prior to the home sale. You AND your spouse (if filing jointly) must live in the home for at least two years during the same period. The exclusion can only be claimed once every two years. There are a number of exceptions, including rules related to divorce, death, and military service. If you do not qualify for the full exclusion, you may qualify for a partial exclusion if the main reason for the home sale was a change in workplace location, a health issue, or an unforeseeable event.

Increasing basis for lower taxes

The capital gain (or loss) in selling a home is determined through a two-part calculation. First, the selling price is reduced by direct selling costs, including certain fees and closing costs, real estate commissions, and certain costs that the seller pays for the

buyer. (The amount of any mortgage pay-off is not relevant for determining capital gains.) This yields the *amount realized*, which is then reduced by the *adjusted basis*.

The basis of your home is the amount you paid for it, including certain costs related to the purchase, plus the costs of improvements that are still part of your home at the date of sale. In general, qualified improvements include new construction or remodeling, such as a room addition or major kitchen remodel, as well as repair-type work that is done as part of a larger project. For example, replacing a broken window would not increase your basis, but replacing the window as part of a project that includes replacing all windows in your house would be eligible. This basis is adjusted by adding certain payments, deductions, and credits such as tax deductions and insurance payments for casualty losses, tax credits for energy improvements, and depreciation for business use of the home. (See hypothetical example below.)

Inheriting a home

Upon the death of a homeowner, the basis of the home is *stepped up* (increased) to the value at the time of death, which means that the heirs will only be liable for future gains. In community property states, this usually also applies to a surviving spouse. In other states, the basis for the surviving spouse is typically increased by half the value at the time of death (i.e., the value of the deceased spouse's share). Determining the capital gain on a home sale is complex, so be sure to consult your tax professional. For more information, see IRS Publication 523 *Selling Your Home*.

1) U.S. Census Bureau, retrieved from FRED, Federal Reserve Bank of St. Louis, 2024

2) CNN, January 29, 2024

Hypothetical Example

Pete and Joanne purchased their home for \$100,000 in 1985 and sold it for \$800,000 in 2024. This is how their capital gains might be calculated.

Capital gains	Basis
\$800,000 sales price	\$100,000 purchase price
– \$50,000 direct selling costs	+ \$8,000 purchase costs
\$750,000 amount realized	+ \$52,000 improvements
– \$150,000 adjusted basis	\$160,000 total basis
\$600,000 capital gain	– \$10,000 solar energy credit
– \$500,000 capital gains exclusion	\$150,000 adjusted basis
\$100,000 taxable gains	

**At a 15% rate — which applies to most taxpayers —
this would cost \$15,000 in federal capital gains taxes.**