# GWM Monthly Newsletter

Gauthier Wealth Management

**Jon Gauthier, CFP® APMA® CRPC®**
**President**
**Gauthier Wealth Management LLC**
330 E. Coffee Street • Suite 1411 • Greenville • SC • 29601
704-661-6419
jon@gauthierwm.com • http://www.gauthierwm.com

Happy March! The February jobs report showed the creation of 275,000 jobs while the unemployment rate increased to 3.9 percent. At first, these data points appear to be conflicting, but given the downwardly revised January jobs number from 353,000 to 229,000, it is likely the February jobs number will be revised lower as well. The weakening in the jobs market will enable the Federal Reserve to follow through on its expectation to cut interest rates in 2024. This will be good news for consumers, businesses, and government borrowing costs. I hope you have the opportunity to enjoy the early days of spring with family and friends!

All the Best, Jon Gauthier, President, GWM

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## Why Do Workers Take Less Paid Time Off Than They Can?

In a 2023 survey, nearly nine out of 10 workers said it was extremely or very important to have a job that offers paid time off (PTO) for vacations, doctor appointments, and minor illnesses. Yet almost half said they take less time off than their employers allow. Here are the top reasons they gave for not using all their PTO.

Source: Pew Research Center, 2023 (survey did not include workers with unlimited paid time off)

# Beware of These Life Insurance Beneficiary Mistakes

Life insurance has long been recognized as a useful way to provide for your heirs and loved ones when you die. While naming your policy's beneficiaries should be a relatively simple task, there are a number of situations that can easily lead to unintended and adverse consequences. Here are several life insurance beneficiary traps you may want to discuss with a professional.

## Not naming a beneficiary

The most obvious mistake you can make is failing to name a beneficiary of your life insurance policy. But simply naming your spouse or child as beneficiary may not suffice. It is conceivable that you and your spouse could die together or that your named beneficiary may die before you and you haven't named successor beneficiaries. If the beneficiaries you designated are not living at your death, the insurance company may pay the death proceeds to your estate, which can lead to other potential problems.

## Death benefit paid to your estate

If your life insurance is paid to your estate, several undesired issues may arise. First, the insurance proceeds likely become subject to probate, which may delay the payments to your heirs. Second, life insurance that is part of your probate estate is subject to claims of your probate creditors. Not only might your heirs have to wait to receive their share of the insurance, but your creditors may satisfy their claims out of those proceeds first.

## Naming a minor child as beneficiary

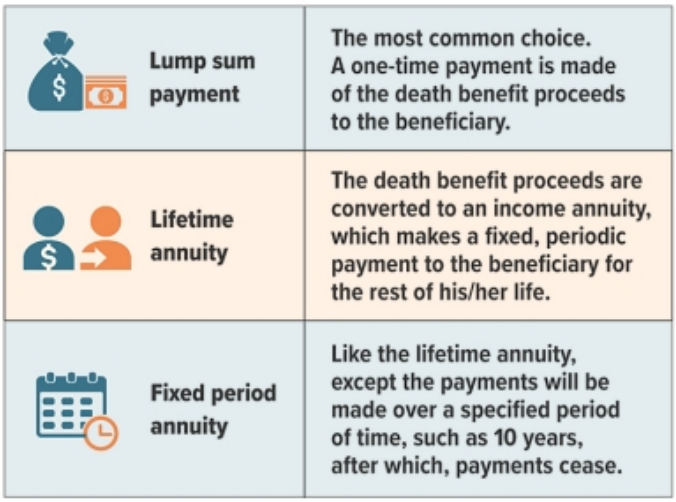
Insurance companies will rarely pay life insurance proceeds directly to a minor. Typically, the court appoints a guardian — a potentially costly and time-consuming process — to handle the proceeds until the minor beneficiary reaches the age of majority according to state law. If you want the life insurance proceeds to be paid for the benefit of a minor, you may consider creating a trust that names the minor as beneficiary. Then the trust manages and pays the proceeds from the insurance according to the terms and conditions you set out in the trust document. Consult with an estate attorney to decide on the course that works best for your situation.

## Disqualifying a beneficiary from government assistance

A beneficiary you name to receive your life insurance may be receiving or be eligible to receive government assistance due to a disability or other special circumstance. Eligibility for government benefits is often tied to the financial circumstances of the recipient. The payment of insurance proceeds may be a financial windfall that disqualifies your beneficiary from eligibility for government benefits, or the proceeds may have to be paid to a government entity as reimbursement for benefits paid. Again, an estate attorney can help you address this issue.

## Life Insurance Payout Options

Most life insurance policies offer several options to the policy beneficiary, including:




## Creating a taxable situation

Generally, life insurance death proceeds are not taxed when they're paid. However, there are exceptions to this rule, and the most common situation involves having three different people as policy owner, insured, and beneficiary. Typically, the policy owner and the insured are one and the same person. But sometimes the owner is not the insured or the beneficiary. For example, mom may be the policy owner on the life of dad for the benefit of their children. In this situation, mom is effectively creating a gift of the insurance proceeds for her children/beneficiaries. As the donor, mom may be subject to gift tax. Consult a financial or tax professional to figure out the best way to structure the policy.

*As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.*

*While trusts offer numerous advantages, they incur up-front costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.*

# Individual Bonds vs. Bond Funds: What's the Difference?

Individual bonds and bond funds can both provide an income stream, but there are important differences. An individual bond can offer more certainty and stability than a fund, while a fund can offer diversification that might be difficult to obtain with individual bonds.

## Coupon, maturity, and yield

An individual bond has a coupon rate — the annual interest rate paid on the face value of the bond — and a maturity date, which is the date the principal is returned to the borrower. If you hold a bond to maturity, you will receive any interest payments due during the time you own it (typically paid quarterly or semi-annually) and the full principal at maturity, unless the bond issuer defaults. If you sell the bond on the secondary market before maturity, you will receive the market price, which may be higher or lower than the face value or the amount you paid, depending on market conditions.

By contrast, a bond fund does not have a coupon rate or a maturity date (with the exception of certain defined-maturity funds). A fund typically pays monthly distributions based on the bonds in the fund. The rate can change as bonds are replaced (due to maturity or sales), and as market conditions change. A fund also has fees and expenses, which reduce the interest paid, and fund managers can adjust to market conditions in various ways, depending on the fund's objective. Because there is no maturity date, you can hold the fund as long as the fund company remains in business. However, there is never a guarantee that you will receive your principal no matter how long you hold the shares. Fund shares, when sold, may be worth more or less than your original investment.

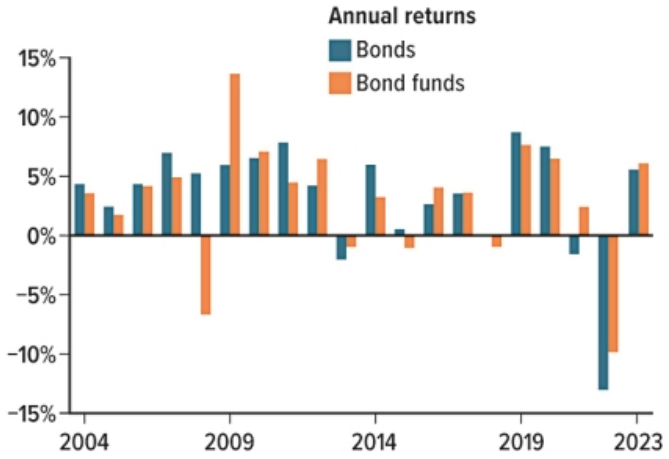
Yield is the expected return from a bond or bond fund, based on the interest rate and purchase price. If you buy a $1,000 bond at face value with a coupon rate of 4%, the yield is 4%. But if you buy the same bond on the secondary market for $800, the yield is 5%, because you receive interest based on the face value: 4% x $1,000 face value = $40 interest / $800 purchase price = 5% yield. Bond fund yields are more complex, but the 30-day SEC yield (or standardized yield) offers a helpful comparison. This is typically calculated using the maximum share price on the last day of the month and projects annual net investment income assuming it remains the same as the previous 30 days.

## Interest rate sensitivity

Bonds and bond funds are sensitive to changes in interest rates. Generally, when rates rise, the market value of existing bonds and bond funds falls, because newly issued bonds pay higher interest rates. Conversely, when rates fall, the market value of existing bonds and bond funds rises. This only applies to market values and would not affect an individual bond held to maturity.

## Varied Performance

Individual bonds and bond funds have performed differently over the past 20 years. In part, this is because fund managers may respond to the market in different ways; for example, they might try to preserve yield over share price or vice versa. Note that the performance of individual bonds only applies to values on the secondary market, not to bonds held to maturity.




Source: London Stock Exchange Group, 2024, for the period 12/31/2003 to 12/31/2023. Bonds are represented by the Bloomberg U.S. Aggregate Bond TR Index, and bond funds are represented by the Thomson US: All Gen Bond - MF Index. Expenses, fees, charges, and taxes are not considered. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Investments seeking higher rates of return involve a higher degree of risk. Past performance is no guarantee of future results. Actual results will vary.

If you owned bond funds during the period that the Federal Reserve was aggressively raising interest rates, you may have been frustrated as you watched the value of your shares drop. Now that interest rates seem to have stabilized, share values are likely to stabilize as well, and they may increase if rates begin to decrease. Bond funds typically replace underlying bonds as they mature, and new bonds added to funds over the last two years will generally pay higher interest rates, increasing the interest paid by the fund. Although it is impossible to predict future market direction, bond funds may be poised to offer solid returns if rates remain stable or begin to fall.

*Diversification does not guarantee a profit or protect against investment loss. Funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

# Braving the Housing Market? An Assumable Mortgage Might Be the Solution

This past year, the housing market has experienced a perfect storm, with high interest rates and inflation resulting in reduced purchasing power for homebuyers. In addition, many current homeowners were reluctant to sell — and give up their lower mortgage rates — leading to lower housing inventory and higher home prices.

If you have been struggling to buy a home in the current market, one possible solution is to look for a home with an assumable mortgage. If you're thinking of selling your current home, having an assumable mortgage can make it more marketable and appealing to buyers.

When a mortgage is assumable, a buyer can take over the seller's existing mortgage and continue making payments on the original terms. This includes the interest rate, payment schedule, and remaining loan balance. In the current market, a buyer may be able to assume a mortgage with a more favorable interest rate than what they would be able to get when applying for a new home loan. To assume a mortgage, the homebuyer must meet the original lender's qualification requirements and pay closing costs.

One major drawback of an assumable mortgage is that the homebuyer must come up with a down payment that will make up any difference between the sale price and the outstanding balance on the original mortgage loan. This means that the homebuyer must either pay cash or take out a second mortgage to cover the remainder of the purchase price. For example, if a home is selling for $500,000, and the seller still owes $300,000 on the mortgage loan, the down payment would be $200,000. If the original loan has a low enough interest rate, an assumable mortgage could be advantageous for a homebuyer with access to enough cash or financing to cover the difference between the sale price and outstanding balance of the assumed loan.

*Interest rates for fixed-rate mortgage loans rose to a 20-year high in late 2023.*

Source: Freddie Mac, 2023

It's important to note that not all mortgage loans are assumable. As a result, finding a home with an assumable mortgage may be difficult, and if you do find one, competition may be fierce. Generally, assumable mortgages are limited to government-backed loans from the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), or U.S. Department of Agriculture (USDA). Unique terms, requirements, and fees may apply.

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