BKMWM Newsletter June/July 2024

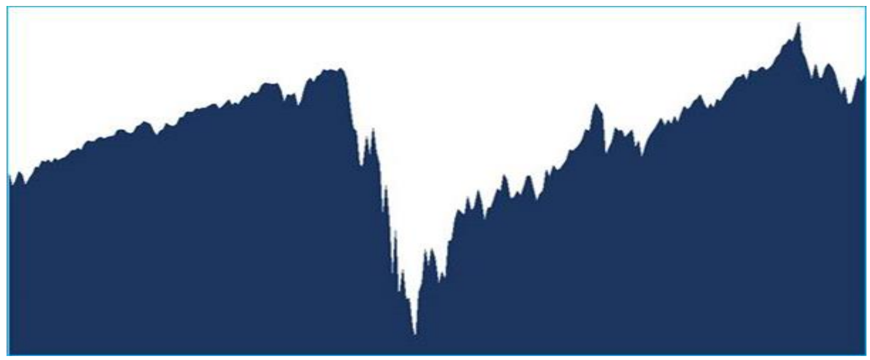
Topics:
1. Perspective
2. The Retirement Savings Cascade
3. Wealth Transfer
4. Layering Life Insurance

BKM Wealth Management
20300 Water Tower Blvd
Suite 250
Brookfield, WI 53045
Tel: (262) 955-7150
Fax: (262) 955-7147
info@bkmwm.com
www.bkmwm.com

WEALTH MANAGEMENT

1) Perspective

Of the three investments charted below, which would you prefer?

a) 

b) 

c) 

Most of us would choose chart c). It appears to be the most rewarding and least volatile.

In fact, all three charts depict the same investment, the SPDR S&P 500 ETF Trust through September 2021. The only difference is the time frame. Chart a) is one year, chart b) is three years and chart c) is 20 years.

We sent these charts during the pandemic to try to provide some perspective after a very volatile ride. Two and a half years later, the S&P 500 is up another 22%. If/when we see the next (insert unknown calamity) we will encourage long-term investors to stay the course. We may even send these charts again. Historically, stocks have rewarded those with patience and perspective. Please contact us to discuss your situation and revisit your plan.

2) The Retirement Savings Cascade

We often discuss the potent effects of strategies like tax deferral and compounding interest, and when it comes to saving for retirement, our friends at the IRS provide a handful of tax advantaged vehicles in which we can compound our investments. This begs the question, "What options are available, and which options should I choose?"

For most workers, the first stop on the tax-deferred savings road will be their employer-sponsored retirement plan, such as a 401(k), 403(b), SIMPLE IRA, or SEP IRA, and their corresponding Roth variants. These employer-sponsored plans typically have high annual contribution caps, allowing savers to put away large amounts of money each year. For example, the maximum employee contribution to a 401(k), 403(b) or most 457 plans for 2024 is $23,000, or $30,500 for those age 50 and older.

It often makes sense to prioritize savings in an employer-sponsored plan because in addition to the tax advantages and high contribution limits, many employers will match some level of contributions and subsidize/negotiate some costs. But if you max out your employer plan and/or have already taken full advantage of your employer's contributions, where do you go next?

For workers with earned income, there is also the option for tax-advantaged retirement savings independent of their employer, through IRAs which may be tax-deductible (Traditional) or after-tax (Roth). Subject to income requirements, IRAs provide the ability to save in a tax advantaged manner, up to another $7,000 per year, or $8,000 for those age 50 and older.

And for the most committed savers, who have maxed out each of these options and are looking for additional tax-advantaged savings, it may be time to turn to a Health Savings Account (HSA). While earmarked for medical expenses, HSAs function very similarly to a tax deductible IRA, and allow you to invest the money tax deferred while possibly withdrawing the money tax-free. Finally, there are insurance and annuity products that may be suitable if further tax advantages are sought.

It is important to note that every investor's situation is unique, and this is broad guidance that may not be ideal for your own situation. This is a simplified overview, omitting many wrinkles and caveats that you should always discuss with your advisor, but it is generally a good starting point to consider filling your retirement buckets in this order:

1. Employer Retirement Plan
2. Individual Retirement Arrangement (IRA)
3. Health Savings Account (HSA)
4. Insurance/Annuity products

3) The Great Wealth Transfer

The Baby Boomer generation (Americans born between 1946 to 1964) will be reaching at least age 65 by the year 2030. Currently they own 52.8% of the wealth in this country.[4] "By 2050, there are expected to be 84 million people over 65. That is almost 50% more seniors than there are today."[2] This sets up what is expected to be a great generational wealth transfer of more than $80 trillion in assets over the next 20 years.

According to Cerulli Associates, close to 70% of the wealth transferred between 2020 and 2045 will come from U.S. households with at least $1 million in investable assets. And only 6.9% of households have that kind of wealth to begin with, Cerulli added.[3]

This is the biggest wealth transfer ever encountered, but it could be reduced by taxes and other factors if the boomers and their heirs do not take the right estate planning steps. Some strategies to navigate the wealth transfer include creating trusts, naming and updating beneficiaries, and communicating with family members.

Only 32% of Americans have a will.[5] Even many of our financially responsible clients are reluctant to put a plan in place and have difficult discussions with their children and beneficiaries. They would prefer to put this conversation off for as long as possible.

If you or your loved ones are contemplating your wealth transfer plan, we can help. BKM Wealth Management is proud of our multigenerational approach. We would be honored to help you facilitate the difficult discussions, and make sure that your estate is properly prepared to transition the way you intend.

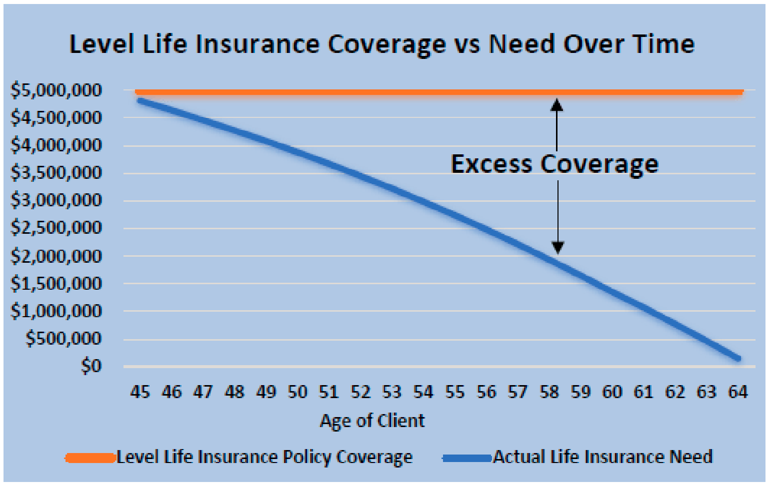
1 Barron's May 15, 2024, A Massive Wealth Transfer Is Coming. Americans Say They'll Need Help Managing It. | Barron's (barrons.com)
2 NBC News Dec 29, 2023, https://www.nbcnews.com/business/consumer/generational-wealth-transfer-baby-boomers-cant-save-gen-x-millennials-rcna128099
3 Cerulli Associates, January 20, 2022. https://www.cerulli.com/press-releases/cerulli-anticipates-84-trillion-in-wealth-transfers-through-2045
4 Federal Reserve's Q2 2023. https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/#quarter:132;series:Net%20worth;demographic:networth;population:all;units:shares;range:1989.3,2022.3
5 Caring.com 2023 Wills Survey. https://www.caring.com/caregivers/estate-planning/wills-survey/

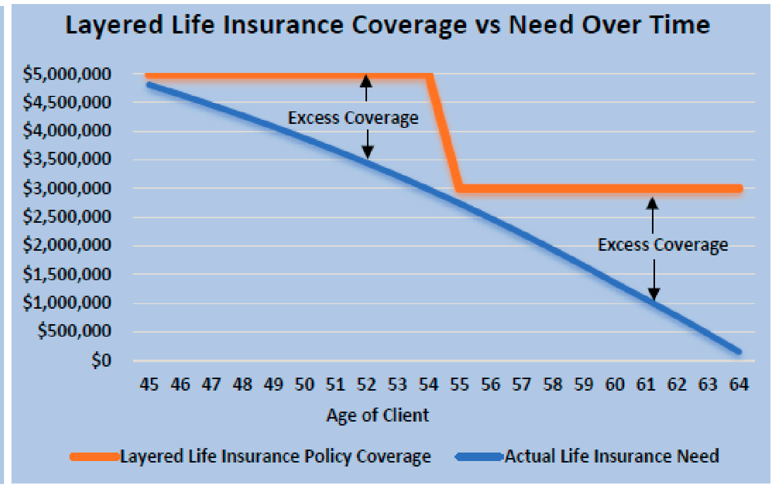
4) Layering Life Insurance

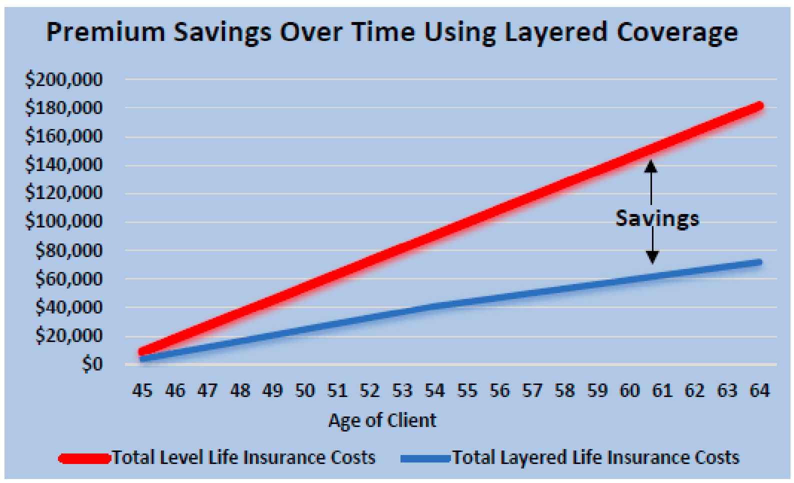
The need for life insurance tends to decline as you approach retirement. A young couple with school-age children, low savings, and a high mortgage balance needs more insurance than their parents who have self-sufficient children, no mortgage, and high savings. In fact, the latter couple often need no life insurance at all.

> *Side note: Be cautious when an insurance representative recommends whole life, variable universal life insurance, or annuities. Costs and commissions are high, while the benefits and needs tend to be vastly oversold. Please consult us before acting.*

For most clients, inexpensive term life insurance is the most cost-effective solution. Rather than buying one large policy, consider "layering" your coverage by buying two or more smaller policies with varying terms. With this simple strategy your coverage reduces with your need, and premium costs can be lower.







Source of charts: Colva Insurance Services, https://www.colvaservices.com/overspending-on-life-insurance/

At BKM Wealth Management we do not sell insurance, nor do we receive commissions or compensation for referring insurance. Instead, financial planning, investment management, fiduciary advice, and quality service are what we offer. Please contact us to review your insurance and estate strategy.

BKM
WEALTH MANAGEMENT

Financial advisors whose mission is to positively impact lives.