



Housing Market Trends: Are They Helping or Hurting the Economy?

In an unusual twist, U.S. home values climbed to an annual record of \$389,800 in 2023, even as mortgage rates rose to the highest levels in a generation. The median price of existing homes rose 4.4% for the twelve months ended in December 2023 to reach \$382,600. (Buying activity and prices tend to peak during the summer and tick back down when the market slows later in the year.)¹

Near the end of October 2023, the average rate for a 30-year fixed mortgage climbed to a 23-year high of nearly 8%, before retreating a bit.² But despite sky-high borrowing costs, buyer demand exceeded the supply of homes for sale.

As a result, sellers generally fared well, but 2023 was a challenging year for would-be homebuyers.

A market in limbo

Rising mortgage rates and home prices made it harder to afford a home, causing many buyers to be priced out of their favorite neighborhoods and forcing others out of the market altogether. In August 2023, housing affordability dropped to its worst levels since 1985.³

Home building stages a recovery

In Q3 2023, fixed residential investment added to U.S. GDP for the first time since Q1 2021. But in Q4, an increase in new residential structures was mostly offset by a decrease in brokers' fees.

Source: U.S. Bureau of Economic Analysis, 2024

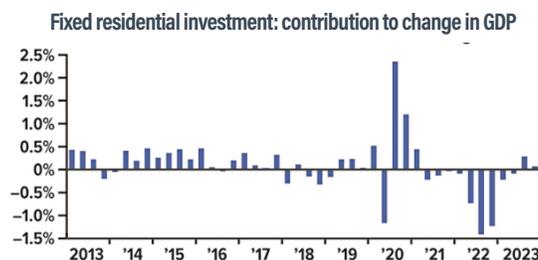
Many people who already own homes have been reluctant to sell and move because they would have to finance their next homes at much higher rates than they currently pay — a conundrum that has worsened the inventory shortage.

This persistent lack of inventory combined with low affordability has cut deeply into home sales. For all of 2023, existing home sales fell to the lowest level in nearly 30 years (4.09 million).⁴ An estimated 668,000 new homes were sold in 2023, an increase of 4.2% from the previous year, but new construction accounts for less than 15% of the total market.⁵

Housing and GDP

Housing contributes directly to the nation's gross domestic product (GDP) in two ways: spending on housing services and residential fixed investment. Housing services include rental payments, imputed rent (the estimated rental value of owner-occupied homes), and utility payments. Residential fixed investment includes new home construction, residential remodeling, production of manufactured homes, and brokers' fees. In the fourth quarter of 2023, housing accounted for \$4.4 trillion of U.S. GDP on a seasonally adjusted annual basis or 15.9% (12.0% for housing services and 3.9% for fixed residential investment).⁶

New home construction stimulates local economies by creating higher-wage jobs and boosting property tax receipts. Nationally (and locally), it benefits other types of businesses as well, by spurring production and hiring in industries that provide raw materials like lumber or that manufacture or sell building tools, equipment, and home components such as windows, cabinets, appliances, and flooring. That's why the Census Bureau's report on housing starts, which were up 7.6% from the previous year's level in December 2023, is considered a leading economic indicator.⁷



Consumers are the key

The health of the housing market can also affect economic activity in other industries indirectly. For example, the "wealth effect" refers to how shifts in home prices, up or down, can influence consumer finances, confidence, and behavior. When home values and equity are rising, consumers who own homes tend to feel wealthier and may be more comfortable spending their money.

The "transaction effect" describes the increase in consumer spending that typically occurs when people move into new homes, which tends to generate demand for goods and services such as appliances, furniture, electronics, home improvement, and landscaping. On the other hand, extremely low affordability might influence younger consumers in a different way. When buying a home seems unattainable, it may cause them to give up on saving for that goal and shift to spending on other things.

Given housing's importance to the economy, there is some concern that a prolonged period of high rates could continue to constrain home building and sales, cause home prices to fall, and damage consumer confidence. When the Federal Reserve begins to cut interest rates, mortgages should gradually follow suit, but that's not likely to happen until GDP growth slows and inflation is no longer seen as the larger threat.

1, 4) National Association of Realtors, 2024; 2) Freddie Mac, 2023; 3) National Association of Realtors via Haver Analytics, 2023; 5, 7) U.S. Census Bureau, 2024; 6) U.S. Bureau of Economic Analysis, 2024

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Saving for College: 529 Plan vs. Roth IRA Birthday Benefits Quiz

Can Home Improvements Lower Your Tax Bill? It Depends.

Investor, Know Thyself: How Your Biases Can Affect Investment Decisions

How a Family Limited Partnership Can Power an Estate Plan

How Would You Pay For Long-Term Care? Financial Regrets

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).

Saving for College: 529 Plan vs. Roth IRA

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 non-qualified 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.

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.



Birthday Benefits Quiz

Remember when you turned 16 and rushed to get your driver's license? Or earned the right to vote at 18 and enjoyed the privileges and responsibilities of adulthood at 21? There aren't many legal changes associated with birthdays after that until you turn 50, and then there are plenty.

Can you match these ages to the related federal benefits and tax responsibilities: 50 55 59½ 62 65 67 70 73 75 (one age will be used twice)

- ___ 1. Eligible for full Social Security benefits for those born in 1960 or later
- ___ 2. Earliest age to make catch-up contributions to a traditional IRA or an employer-sponsored retirement plan
- ___ 3. Eligible for maximum Social Security benefit
- ___ 4. Must begin taking required minimum distributions from most tax-deferred retirement plans, for those born from 1951 to 1959
- ___ 5. Eligible to enroll in Medicare
- ___ 6. Earliest age to make catch-up contributions to a health savings account
- ___ 7. Earliest eligibility age to begin taking reduced Social Security worker benefits
- ___ 8. Must begin taking required minimum distributions from most tax-deferred retirement plans, for those born in 1960 or later
- ___ 9. Eligible to withdraw money from a tax-deferred IRA or employer-sponsored retirement plan (for most employees) without incurring a 10% federal tax penalty
- ___ 10. Eligible to withdraw money from a tax-deferred employer-sponsored retirement plan without incurring a 10% federal tax penalty, for an employee who separates from service with the employer

ANSWERS: 1. 67; 2. 50; 3. 70; 4. 73; 5. 65; 6. 55; 7. 62; 8. 75; 9. 59½; 10. 55 (50 or after 25 years of service for qualified public safety employees)



Most home improvements are not tax deductible — with one possible exception. In certain situations, you may be able to deduct improvements deemed necessary for medical reasons (not just beneficial to general health). If you itemize instead of taking the standard deduction, you can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income, so the tax savings could be significant if a costly home improvement pushes your total medical expenses above that threshold. Installing air conditioning to help treat asthma or modifying a home to make it wheelchair accessible are common examples of qualifying expenses.

Here are two more ways that improving your home could potentially reduce your tax burden.

Capital improvements

Projects that add to the value of your home, prolong its life, or adapt it to new uses are considered capital improvements. When you sell your home in the future, you can add the cost of capital improvements to your initial basis (what you paid for it originally), reducing your capital gain and the resulting tax bill.

Some examples of capital improvements include remodeling the kitchen, replacing all your home's windows, adding a bathroom, or installing a new roof. Repairs that keep your home in good condition (such as repainting, replacing a broken door or window, or fixing

a leak) don't count as capital improvements. However, an entire repair job may be considered an improvement if it's done as part of an extensive remodel or restoration.

Energy-saving tax credits

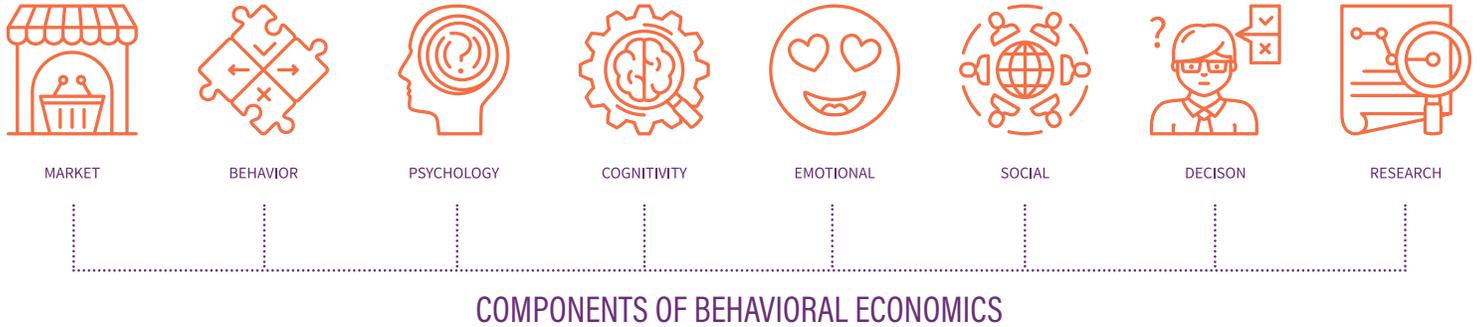
The Inflation Reduction Act of 2022 reconfigured two nonrefundable tax credits for home improvements that save energy. Unlike a deduction, which reduces your taxable income, a tax credit lowers your tax bill dollar for dollar. Both credits are available only for the installation of new products that meet specific energy efficiency requirements.

The energy efficient home improvement credit is equal to 30% of qualified expenditures for an existing home (not new construction). A \$3,200 maximum annual credit is available through 2032. A \$2,000 limit (30% of all costs, including labor) applies to electric or natural gas heat pumps, heat pump water heaters, and biomass stoves and boilers. A separate \$1,200 limit applies to home energy audits and building envelope components (such as exterior doors, windows, skylights, and insulation) and energy property (including central air conditioners).

The residential clean energy property credit is a 30% tax credit available for qualifying expenditures for clean energy property (and related labor costs) such as solar panels, solar water heaters, geothermal heat pumps, wind turbines, fuel cells, and battery storage.

Can Home Improvements Lower Your Tax Bill? It Depends.

Investor, Know Thyself: How Your Biases Can Affect Investment Decisions



Traditional economic models are based on the premise that people make rational decisions to maximize economic and financial benefits. In reality, most humans don't make decisions like robots. While logic does guide us, feelings and emotions — such as fear, excitement, and a desire to be part of the "in" crowd — are also at work.

In recent decades, another school of thought has emerged. This field — known as behavioral economics or behavioral finance — has identified unconscious cognitive biases that can influence even the most stoic investor. Understanding these biases may help you avoid questionable financial decisions.

Sound familiar?

What follows is a brief summary of how some common biases can influence financial decision-making. Can you relate to any of these scenarios?

Anchoring refers to the tendency to become attached to something, even when it may not make sense. Examples include a home that becomes too much to care for or a piece of information that is believed to be true despite contradictory evidence. In investing, it can refer to the tendency to hold an investment too long or rely too much on a certain piece of data or information.

Loss aversion bias describes the tendency to fear losses more than to celebrate gains. For example, you may experience joy at the chance of becoming \$5,000 richer, but the fear of losing \$5,000 might provoke a far greater anxiety, causing you to take on less investment risk than might be necessary to pursue your goals.

The **endowment effect** is similar to anchoring in that it encourages you to "endow" what you currently own with a greater value than other possibilities. You may presume the investments

in your portfolio are of higher quality than other available alternatives, simply because you own them.

Overconfidence is having so much confidence in your own ability to select investments that you might discount warning signals or the perspective of more experienced professionals.

Confirmation bias is the tendency to assign more authority to opinions that agree with your own. For example, you might give more credence to an analyst report that favors a stock you recently purchased, in spite of several other reports indicating a neutral or negative outlook.

The **bandwagon effect**, also known as **herd behavior**, happens when decisions are made simply because "everyone else is doing it." This can result in buying high and selling low — what most knowledgeable investors strive to avoid.

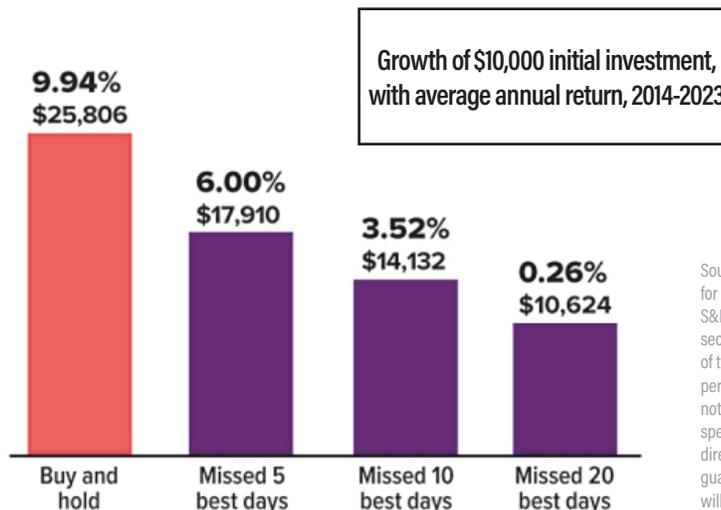
Recency bias refers to the fact that recent events can have a stronger influence on your decisions than those in the past. For example, if you were severely affected by market gyrations in the early days of the pandemic, you may have wanted to sell your stock holdings due to fear. Conversely, if you were encouraged by the stock market's strong performance in 2023, you may have wanted to pour all your money into equities. Yet either of these actions might not have been appropriate for your investment goals and personal circumstances.

An objective view can help

When it comes to our finances, instincts may work against us. Before taking any actions with your portfolio, it might be wise to seek the counsel of a qualified financial professional who can help you identify any unconscious biases at work.

Risk of Missing Out

Emotion-based decisions can have a significant impact on your portfolio over time. Consider how much a long-term investor might have lost by shifting in and out of the market due to fear, overconfidence, or following the herd, and subsequently missing the best-performing days over the 10-year period ended 2023.



Source: Yahoo Finance, 2024, S&P 500 Index for the period 12/31/2013 to 12/31/2023. The S&P 500 Index is an unmanaged group of securities considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in any index. Past performance is no guarantee of future results. Actual results will vary.



How a Family Limited Partnership Can Power an Estate Plan

One challenge faced by family-run businesses involves transitioning both the ownership and operations from one generation to the next. A family limited partnership (FLP) is a legal agreement that enables business owners and their heirs to address succession, estate, and tax planning needs all at once.

Business owners who want family members to inherit their businesses in the future could use FLPs to transfer assets out of their taxable estates during their lifetimes. And to do so, the owners of a valuable business might begin this process many years before they intend to give up operational control.

Estate tax threat

The IRS calculates the estate tax due on an individual's gross taxable estate by adding the value of all owned assets, including a home and a business, and subtracting any applicable exemptions. Even if the taxable estate falls below the current generous federal estate tax exemption level (\$13.61 million or \$27.22 million for a married couple in 2024), the family might not be entirely out of the woods, especially if they live in a state that has an estate tax or an inheritance tax with a lower exemption amount. Perhaps more concerning, the federal estate tax exemption is scheduled to revert to lower, inflation-adjusted 2017 levels in 2026.

When business owners fail to consider that federal and state estate taxes could be due upon their passing, the funds needed to pay the taxes may not be available, and their heirs may be forced to borrow the money or liquidate the business.

Family discount

With an FLP, general partners run the business. Limited partners (such as the children of general partners) have no vote and no say about day-to-day operations, and they are not liable for the debts of the FLP.

A general partner (or a corporation or limited liability company controlled by the general partner) can gift ownership shares to limited partners in installments that conform to the annual gift tax exclusion of \$18,000 per recipient (in 2024). Because limited partners have restricted rights, these annual gifts may be valued at a discount — typically 30% or more — from fair market value. For example, more than \$25,000 worth of property or business shares (currently valued at \$18,000 for gift tax purposes) could potentially be transferred to each limited partner without triggering gift taxes. Of course, every family's situation is different, and actual results will vary.

Setting up a family limited partnership can involve complex tax rules and regulations, and there are up-front costs as well as ongoing fees and operating expenses to consider. Be sure to consult with your tax and estate planning professionals.

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.

Percentage of Americans age 65 and older who identified the following as a main source of funding if they or a family member entered a nursing home





297 King Street
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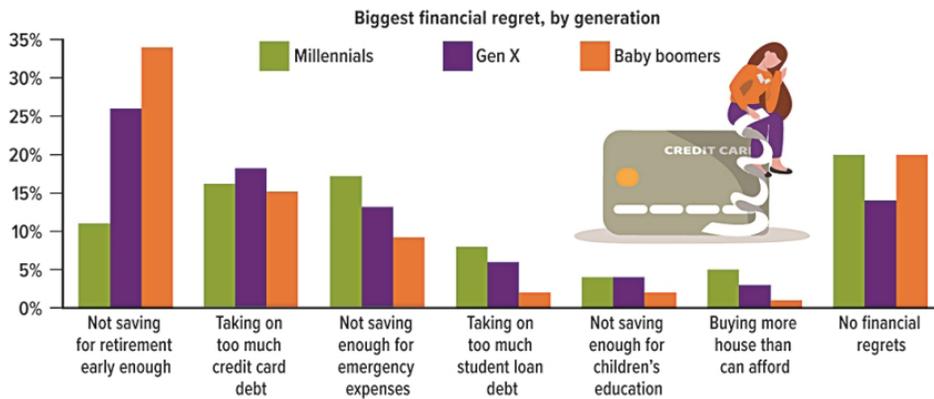
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Financial Regrets

A 2023 survey found that about three out of four U.S. adults had a financial regret. The most common were not saving for retirement early enough, taking on too much credit card debt, and not saving enough for emergency expenses. It's probably not surprising that the weight that people placed on these and other regrets varied by generation — and regret about not saving early enough for retirement was higher for those closer to retirement age.



Source: Bankrate, July 19, 2023 (categories not shown include "something else" and "don't know")

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