

# GFCReport

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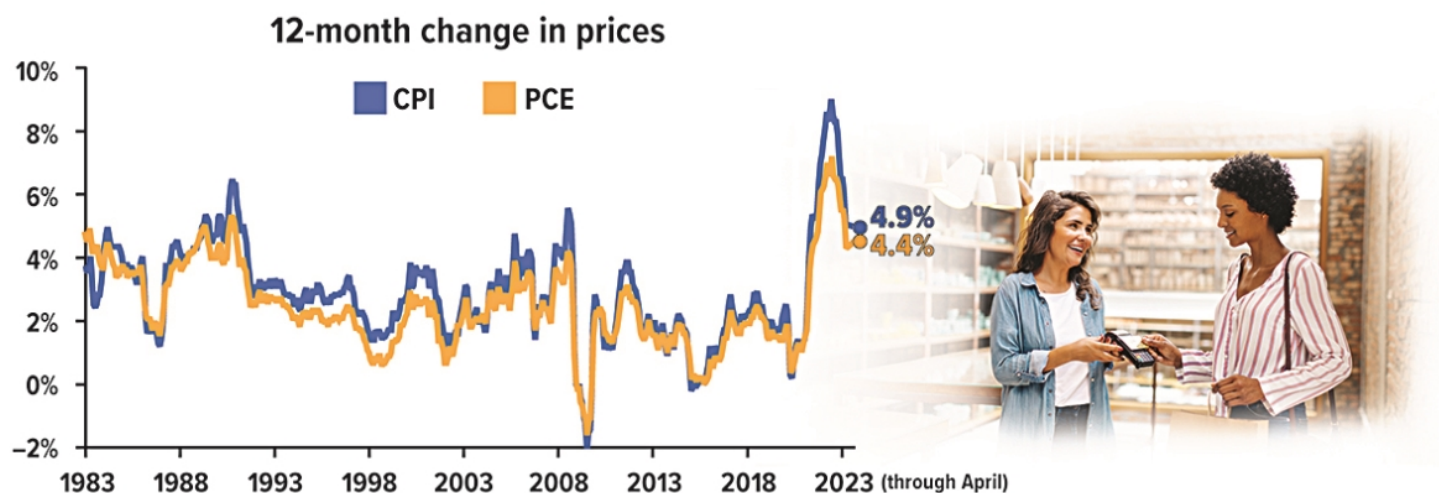
**GEORGE CERWIN**  
**GFC FINANCIAL MANAGEMENT**

2764 Sunset Point Rd #600 • Clearwater • FL • 33759  
Office: 727-724-9499 • Fax: 727-724-9438  
gcerwin@sagepointadvisor.com • www.gfcfinancial.com



## Inflation Gauges Don't Always Paint the Same Picture

Economists and investors rely on the Consumer Price Index (CPI) and the Personal Consumption Expenditures (PCE) Price Index to track the path of inflation over time. The two indexes use different formulas and data sources — CPI gets data from consumers and PCE data comes from businesses. PCE is broader in scope and some expenditure categories are weighted very differently. In late 2022, the difference between annual inflation as measured by CPI and PCE was the widest it has been since the 1980s.



Sources: U.S. Bureau of Labor Statistics, 2023; U.S. Bureau of Economic Analysis, 2023 (data through April 2023)

# Balancing Stocks and Bonds in One Fund

Maintaining an appropriate balance of stocks and bonds is one of the most fundamental concepts in constructing an investment portfolio. Stocks provide greater growth potential with higher risk and relatively low income; bonds tend to be more stable, with modest potential for growth and higher income. Together, they may result in a less volatile portfolio that might not grow as fast as a stock-only portfolio during a rising market, but may not lose as much during a market downturn.

## Three Objectives

Balanced mutual funds attempt to follow a similar strategy. The fund manager typically strives for a specific mix, such as 60% stocks and 40% bonds, but the balance might vary within limits spelled out in the prospectus. These funds generally have three objectives: conserve principal, provide income, and pursue long-term growth. Of course, there is no guarantee that a fund will meet its objectives.

When investing in a balanced fund, you should consider the fund's asset mix, objectives, and the rebalancing guidelines as the asset mix changes due to market performance. The fund manager may rebalance to keep a balanced fund on track, but this could create a taxable event for investors if the fund is not held in a tax-deferred account.

## Core Holding

Unlike "funds of funds," which hold a variety of broad-based funds and are often meant to be an investor's only holding, balanced funds typically include individual stocks and bonds. They are generally not intended to be the only investment in a portfolio, because they might not be sufficiently diversified. Instead, a balanced fund could be a core holding that enables you to pursue diversification and other goals through a wider range of investments.

You may want to invest in other asset classes, hold a wider variety of individual securities, and/or add funds that focus on different types of stocks or bonds than those in the balanced fund. And you might want to pursue an asset allocation strategy that differs from the allocation in the fund. For example, holding 60% stocks and 40% bonds in a portfolio might be too conservative for a younger investor and too aggressive for a retired investor, but a balanced fund with that allocation could play an important role in the portfolio of either investor.

## Heavier on Stocks or Bonds?

Balanced funds typically hold a larger percentage of stocks than bonds, but some take a more conservative approach and hold a larger percentage of bonds. Depending on your situation and risk tolerance, you might consider holding more than one balanced fund, one tilted toward stocks and the other tilted toward

bonds. This could be helpful in tweaking your overall asset allocation. For example, you may invest more heavily in a stock-focused balanced fund while you are working and shift more assets to a bond-focused fund as you approach retirement.

## Lower Highs, Higher Lows

During the 20-year period ending in October 2022, balanced funds were less volatile than stock funds, while producing higher returns than bond funds.



Source: Refinitiv, 2022, for the period 10/31/2002 to 10/31/2022. Equity funds are represented by the Thomson US: All Equity - MF Index, balanced funds by the Thomson US: Balanced - Domestic - MF Index, and bond funds by the Thomson US: All Gen Bond - MF Index. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. The results do not include the effects of fees, expenses, and taxes. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results. Actual results will vary. Investments seeking to achieve higher yields also involve a higher degree of risk.

Keep in mind that as you change the asset allocation and diversification of your portfolio, you may also be changing the level of risk. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Bond funds, including balanced funds, are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance.

*Mutual 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. You should read the prospectus carefully before investing.*

# How Taxes Impact Your Retirement-Income Strategy

Retirees face several unique challenges when managing their income, particularly when it comes to taxes. From understanding how taxes relate to Social Security and Medicare to determining when to tap taxable and tax-advantaged accounts, individuals must juggle a complicated mix of factors.

## Social Security and Medicare

People are sometimes surprised to learn that a portion of Social Security income becomes federally taxable when combined income exceeds \$25,000 for single taxpayers and \$32,000 for married couples filing jointly. The taxable portion is up to 85% of benefits, depending on income and filing status.<sup>1</sup>

In addition, the amount retirees pay in Medicare premiums each year is based on the modified adjusted gross income (MAGI) from *two years earlier*. In other words, the cost retirees pay for Medicare in 2023 is based on the MAGI reported on their 2021 returns.

## Taxable, Tax-Deferred, or Tax-Free?

Maintaining a mix of taxable, tax-deferred, and tax-free accounts offers flexibility in managing income each year. However, determining when and how to tap each type of account and asset can be tricky. Consider the following points:

**Taxable accounts.** Income from most dividends and fixed-income investments and gains from the sale of securities held 12 months or less are generally taxed at federal rates as high as 37%. By contrast, qualified dividends and gains from the sale of securities held longer than 12 months are generally taxed at lower capital gains rates, which max out at 20%.

**Tax-deferred accounts.** Distributions from traditional IRAs, traditional work-sponsored plans, and annuities are also generally subject to federal income tax. On the other hand, company stock held in a qualified work-sponsored plan is typically treated differently. Provided certain rules are followed, a portion of the stock's value is generally taxed at the capital gains rate, no matter when it's sold; however, if the stock is rolled into a traditional IRA, it loses this special tax treatment.<sup>2</sup>

**Tax-free accounts.** Qualified distributions from Roth accounts and Health Savings Accounts (HSAs) are tax-free and therefore will not affect Social Security taxability and Medicare premiums. Moreover, some types of fixed-income investments offer tax-free income at the federal and/or state levels.<sup>3</sup>

## The Impact of RMDs

One income-management strategy retirees often follow is to tap taxable accounts in the earlier years of retirement in order to allow the other accounts to continue benefiting from tax-deferred growth. However, traditional IRAs and workplace plans cannot

grow indefinitely. Account holders must begin taking minimum distributions after they reach age 73 (for those who reach age 72 after December 31, 2022). Depending on an account's total value, an RMD could bump an individual or couple into a higher tax bracket. (RMDs are not required from Roth IRAs and, beginning in 2024, work-based plan Roth accounts during the primary account holder's lifetime.)

## Don't Forget State Taxes

State taxes are also a factor. Currently, seven states impose no income taxes, while New Hampshire taxes dividend and interest income and Washington taxes the capital gains of high earners. Twelve states tax at least a portion of a retiree's Social Security benefits.

## Eye on Washington

Finally, both current and future retirees will want to monitor congressional actions over the next few years. That's because today's historically low marginal tax rates are scheduled to revert to higher levels in 2026, unless legislation is enacted (see table).

## Help Is Available

Putting together a retirement-income strategy that strives to manage taxes is a complex task indeed. Investors may want to seek the help of a qualified tax or financial professional before making any final decisions.<sup>4</sup>

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## Tax Rates Scheduled to Rise

Unless legislation is enacted, federal marginal income tax rates are scheduled to rise in 2026.

Current rate	2026
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

1) Combined income is the sum of adjusted gross income, tax-exempt interest, and 50% of any Social Security benefits received.

2) Distributions from tax-deferred accounts and annuities prior to age 59½ are subject to a 10% penalty, unless an exception applies.

3) A qualified distribution from a Roth account is one that is made after the account has been held for at least five years and the account holder reaches age 59½, dies, or becomes disabled. A distribution from an HSA is qualified provided it is used to pay for covered medical expenses (see IRS publication 502). Nonqualified distributions will be subject to regular income taxes and penalties.

4) There is no guarantee that working with a financial professional will improve investment results.

# Three Ways to Help Simplify Your Finances

Over time, finances tend to get complicated, especially when you're juggling multiple goals and accounts. Simplifying your finances requires a bit of effort up front, but making just a few changes may help free up more time to focus on your financial priorities.

## Make Saving Automatic

Saving for a goal is simpler when money is set aside automatically. For example, you may be able to regularly and automatically deposit a portion of your paycheck into a retirement account through your employer. Your contribution level may also increase automatically each year, if your plan offers this feature. Employers may also allow you to split your direct deposit into multiple accounts, enabling you to build up a college fund or an emergency fund, or direct money to an investment account.

Another way to make saving for multiple goals easier is to set up recurring transfers between your savings, checking, or other financial accounts. You decide on the frequency and timing of those transfers, and you can quickly make necessary adjustments.

## Consolidate Retirement Funds

If you've had a few jobs, you might have several retirement accounts, such as IRAs and 401(k) or 403(b) plans, with current and past employers. Consolidating them in one place may help make it easier to monitor and manage your retirement savings and distributions, and prevent you (or your

beneficiaries) from forgetting about older or lower-balance accounts. Not all accounts can be combined, and there may be tax consequences, so discuss your options with your financial and/or tax professionals.

## Take a Credit Card Inventory

Credit cards are convenient, but managing multiple credit-card accounts can be time-consuming and costly. Losing track of balances and due dates may lead to increased interest charges or late payments. You could also miss out on some of the rewards and benefits your cards offer. If you've accumulated a few credit cards, review interest rates, terms, credit limits, and benefits that may have changed since you got the cards. Ordering a copy of your credit report can help you quickly see all of your open credit-card accounts — there may be some you've forgotten about. Visit [annualcreditreport.com](https://annualcreditreport.com) to get a free credit report from each of the three major credit reporting agencies (Experian, Equifax, and TransUnion).

Once you know what you have, you can decide which cards to use and put the rest aside. Because it's possible that your credit score might take a temporary hit, it may not always be a good idea to close accounts you're not using unless you have a compelling reason, such as a high annual fee or exposure to fraud.

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