Kiplinger's
PERSONAL FINANCE

The KIPLINGER 25 FUNDS

Build a Better PORTFOLIO With Our Favorite FUNDS

Use our stock, bond and specialty fund picks to construct a mix that works for today's market. p 18

PLUS: Model portfolios to help you reach your goals. p 21

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VOL. 77 NO. 5

CHRISTOPHER PEIRCE, COLBY-SAWYER COLLEGE

AHEAD

INVESTING

MONEY

ON THE COVER: PHOTO BY SHUTTERSTOCK, MODIFIED BY KIPLINGER

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STEPS TO MAXIMIZE YOUR SOCIAL SECURITY BENEFITS. PAGE 52

VERÓNICA GRECH

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WHEN ARE TAXES DUE IN 2023? TAX DEADLINES BY MONTH

Know the tax deadlines that apply to you so that you don't get hit with IRS penalties or miss out on a valuable tax break.

kiplinger.com/kpf/tax-deadlines

THE BEST ETFs TO BUY NOW

Finding the best ETFs to buy in a high-inflation environment can seem like a tall task, but these five picks are a good place to start.

kiplinger.com/investing/etfs/best-etfs-to-buy

CD RATES ARE RISING. SHOP AROUND TO GET THE BEST RETURNS

As inflation and interest rates continue to rise, so do rates on savings accounts and CDs. If you shop around, you'll find that some CDs are already offering yields greater than 5%.

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GETTY IMAGES

Retiree State Taxes

The magazine's retirement-themed articles and the annual *Retirement Guide* have proved valuable during our years preparing for our retirement and moving from Illinois to Georgia in 2021. Reading "Moving? Don't Overlook State Taxes" (March) reminded me of the real estate adage, "location, location, location." We sold a four-bedroom ranch with a three-car garage in Illinois, which cannot be duplicated in our chosen location in Georgia. Although the real estate tax rates are lower in Georgia, the higher housing prices offset the tax savings. The net effect is that we now have the highest mortgage payment ever. And our property assessment increased 45% for 2023, raising the assessment value (taxable value) by over $94,000.

Georgia does not completely exempt retirement income, so we will be paying Georgia state income tax for 2022, compared with zero state income tax had we stayed in Illinois. Health and auto insurance costs are also higher here. Fortunately, *Kiplinger's* retirement articles prompted us to do our research prior to moving and allowed us to prepare for the higher cost of living.

LEE M. FADELEY
ALPHARETTA, GA.

While some states may be tax-friendly for retirees with average income, those same states can be un-tax-friendly for retirees at higher incomes. Also, some of the states you show as tax-friendly have estate or inheritance taxes. Many retirees with higher incomes who want to pass assets to children are less likely to find those states tax-friendly.

DOUG HAM
ARLINGTON, VA.

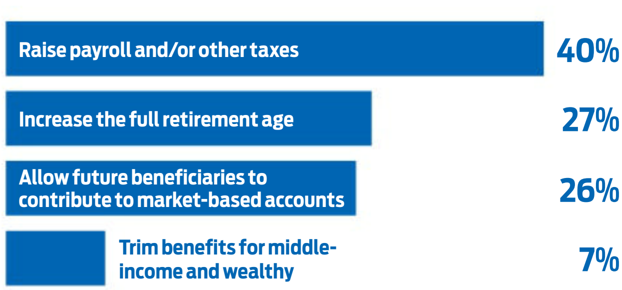
I think your data is flawed as it applies to property taxes and using a home worth $250,000 and $350,000 for the two scenarios. If you used the mean value of homes for each state, it would more accurately depict the property taxes you could expect to pay.

JAMES MCDERMOTT
SAN JOSE, CALIF.

Editor's note: Actually, our methodology already reflects this suggestion. The property tax rate is based on the median property taxes paid and the median home value in each state for 2021 (the most recent year available). The data comes from the U.S. Census Bureau. By using data on taxes actually paid and median home values, differences between the cost of housing from one state to another are factored into the equation.

READER POLL

How should Congress fix the shortfall in the Social Security trust fund?



For a brief history of Social Security reform, turn to page 6.

Trimming taxes. In "How to Trim your Tax Bill" (March), there is a pitfall for married couples filing separately that was not mentioned: Earners making more than $10,000 who have lived with each other at any point during the year are not eligible to contribute to a Roth IRA at all. If the earners have a modified AGI of $10,000 or less and have lived with each other at any point during the tax year, they have a reduced contribution limit.

DOMINIC BIACCHI
HARRISBURG, PA.

529 plan rollovers. Nothing in SECURE Act 2.0 says you have to be a parent to roll over a 529 account to a child's Roth IRA—only that you be an owner of a 529 ("Ahead," March). Also, you can change the beneficiary to yourself. As a single adult who has had 529 plans with myself as beneficiary for many years, this is great news! Please, do more planning for older single adults.

NATASHA DMTRY
LOS ALAMOS, N.M.

Random walk. In 1978 in a finance course at Indiana University, we discussed *A Random Walk Down Wall Street* and "Bogle's Folly," or stock index funds ("Is the Walk Down Wall Street Still Random?" March). By the 1980s, whenever I got a raise, I added half to my 401(k) stock index fund. I had a simple, low-stress savings plan. At 59, when offered early retirement, I happily said yes.

MICHAEL ZIERDT
INDIANAPOLIS

Vanguard fees. A letter in the March edition mentioned the Vanguard fees on regular mutual funds if you don't have a brokerage account. I would like to add that Vanguard claims that fee by selling $20 worth of shares, which means you now need to fill out a Schedule D and Form 8949 with the IRS to report any capital gain/loss on the sale(s).

GEOFFREY FEDAK
SAN DIEGO

Editor's note: If you have $1 million in Vanguard assets, the fee is waived.

Correction. The 10-year return for the American Funds Growth Fund of America fund should have been 11.9% ("We Rate the Biggest 401(k) Funds," Jan).

CONTACT US

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Mark Solheim

Saving Social Security

While the rest of America has been watching *Succession* or *Ted Lasso,* my wife and I have been rewatching *The West Wing,* Aaron Sorkin's early-aughts series featuring President Jed Bartlet and his hard-working, idealistic and unabashedly liberal senior staff. What's striking is how little politics has changed in two decades. Bartlet's administration grapples with the debt limit, terrorism, gun control, high gas prices and—in an episode we watched the other night—saving Social Security.

Social Security is basically a pay-as-you-go system, with a trust fund to supplement benefits. With a falling birthrate and fewer workers supporting more retirees, we've been dipping into the trust fund. Adding to the shortfall is growing income inequality. Social Security collects FICA taxes only up to a certain wage ($160,200 this year), and higher earners get a free pass on wages above that. According to current projections, the trust fund will run out of money between 2032 and 2034. At that point, tax revenues will be sufficient to cover just 77% or so of the promised benefits to retirees.

For the average retiree, Social Security benefits make up about one-third of income. Current beneficiaries and anyone retiring in the next decade can relax—one way or another, you will get all the benefits you've been promised. (On page 52, we take a deep dive into the redesigned Social Security benefits statement and how the expanded information can help you make the most of your benefits.) Younger workers have more reason to worry about benefit cuts.

SOCIAL SECURITY'S FINANCES HAVE LOOKED SHAKY AT LEAST SINCE THE MID 1970s, BUT THE ONLY SIGNIFICANT REFORMS HAPPENED 40 YEARS AGO.

Decades of angst. Social Security's finances have looked shaky at least since the mid 1970s, but the only significant reforms happened 40 years ago. In 1977, Congress raised the wage base as well as the payroll tax rate to address financial problems exacerbated by high inflation and recession. Congress passed sweeping changes into law in 1983. That legislation instituted the gradual rise in the age of eligibility for full benefits and taxation of Social Security benefits. It also raised payroll taxes to supercharge the trust fund surplus.

All of that was supposed to secure the system's finances until 2060. But payouts have been exceeding payroll taxes since 2010, and that will continue until Congress fixes the shortfall or the trust fund is depleted, whichever comes first.

Since 1983, a few valiant efforts at reform have fizzled. Early in his second term, George W. Bush pushed for voluntary personal market-based accounts for workers, but the idea never gained traction. In 2010, as part of a broader deficit-reduction plan, the Simpson-Bowles Commission proposed raising the full retirement age further and expanding the wage base, but its recommendations couldn't garner enough support to reach Congress.

Now, with the showdown over the debt limit, Social Security has again bubbled up as a top issue. Biden created a kerfuffle during the State of the Union speech over Republicans' willingness to trim Social Security or Medicare benefits, but Republican leaders have said the programs won't be on the table during debt-limit negotiations.

With a divided Congress stuck in their own partisan lanes, Social Security isn't likely to get a fix until the trust fund is nearly gone. Democrats have introduced more proposals than Republicans, generally calling for new taxes on wealthy and middle-income workers and expanding benefits. Republicans have struggled to find a unified approach, but conservatives have outlined changes that steer away from tax increases and would shrink benefits and reduce eligibility.

In *The West Wing,* Toby Ziegler, the White House communications director, persuades a retiring Republican senator to take up the mantle of reform and then finds a Democratic senator to cosponsor a bill. Both are willing to compromise and lobby their colleagues, and the show ends on an optimistic note. That may have been a Hollywood fantasy then, but it's a good script for what needs to happen now.

Mark Solheim

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ILLUSTRATION BY PATRICK WELSH

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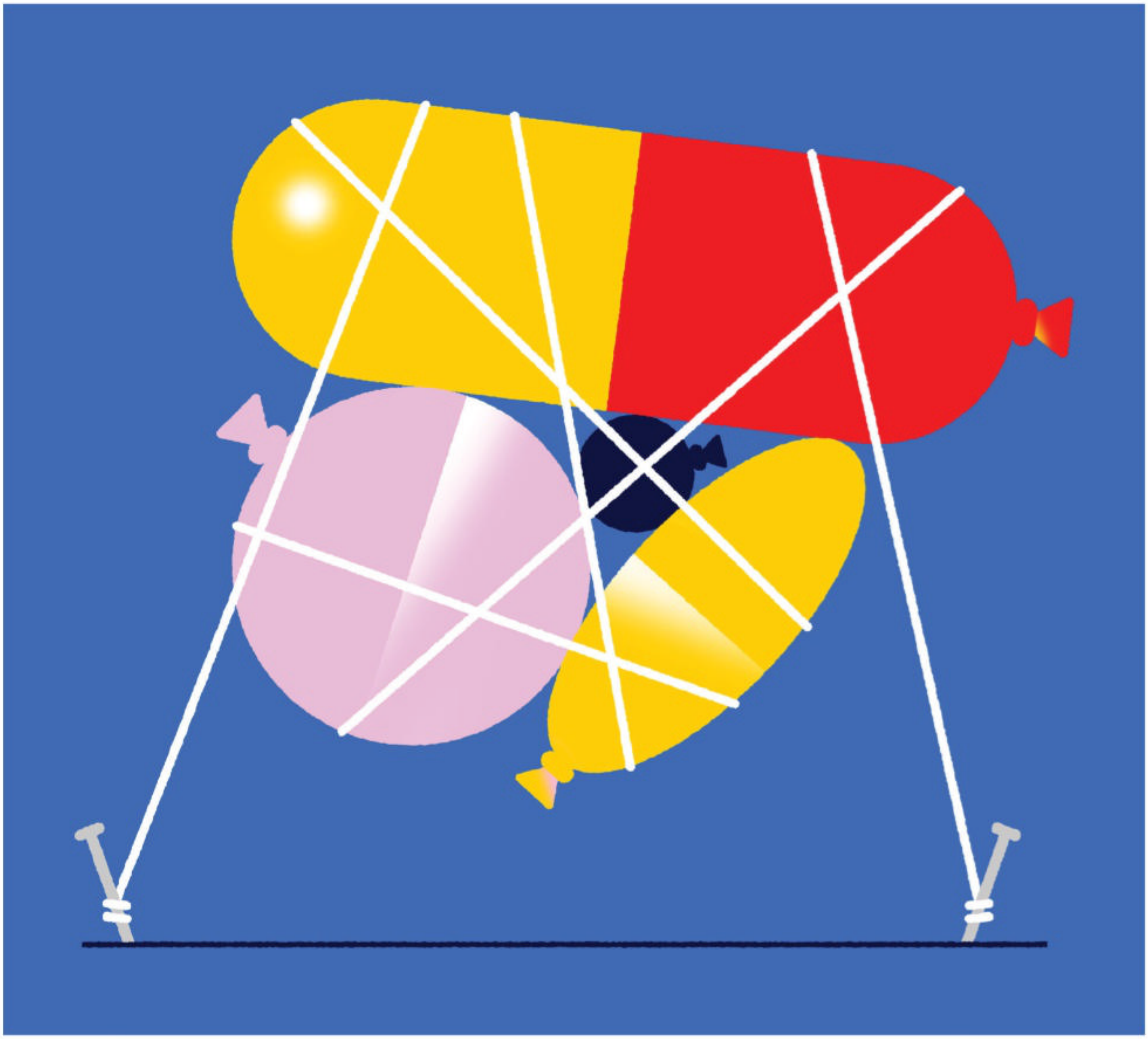
AHEAD



TOPIC A

HOLDING DOWN RETIREE DRUG COSTS

Legislation enacted in 2022 could eventually reduce overall prescription drug prices, too. **BY SANDRA BLOCK**

IF YOU'RE ENROLLED IN MEDICARE and spend a lot of money on prescription drugs, legislation enacted last summer could lower some of your expenses. The prescription-drug provisions in the 2022 Inflation Reduction Act will be phased in over seven years, but some take effect as early as this year (see the time line on page 10). To get the most out of these cost-saving

ILLUSTRATION BY GIACOMO BAGNARA

provisions, you need to be vigilant, and you may need to make some changes to your existing prescription-drug regimen.

Caps on insulin payments. If your insulin is covered by your Part D prescription-drug plan, your co-payments are capped at $35 a month, effective January 1. For beneficiaries who use an insulin pump, which is covered by Part B, the $35 co-payment cap kicks in July 1.

The caps take effect automatically, but if your insulin is covered by your Part D plan, you may want to review it. There are more than 70 different types of insulin on the market, and Part D plans have the option of deciding which ones to cover. When the Inflation Reduction Act was signed into law last summer, 2023 premiums and co-pays for participating private insurers had already been incorporated into the "Plan Finder" tool at Medicare.gov, so they didn't include the $35 cap, says Kelli Jo Greiner, director of the Minnesota State Health Insurance Assistance Program, which provides free counseling for Medicare beneficiaries.

Because of the outdated information in Plan Finder, some seniors may have chosen a Part D plan with a type of insulin that has a lower co-payment than the type their doctor recommended, or some may have selected a plan that doesn't cover insulin at all, says Leigh Purvis, director of health care costs and access for AARP's Public Policy Institute. The Centers for Medicare and Medicaid Services (CMS) has given beneficiaries who use insulin until the end of the year to switch Part D plans. Call 800-633-4227 if you take insulin and want to change your plan. For help choosing a plan that fits your needs, contact a SHIP counselor at www.shiphelp.org.

Diabetic patients who aren't on Medicare could also see their costs decline. Eli Lilly recently announced that it's slashing the cost of its commonly prescribed insulin drugs and expanding a program that caps out-of-pocket costs at $35 a month.

Free shingles vaccines. Vaccines for the flu, pneumonia, hepatitis D and COVID-19 are covered by Medicare Part B, generally with no co-pays. But the shingles vaccine, which the Centers for Disease Control and Prevention recommends for everyone 50 and older, is covered by Part D and may require a co-pay or coinsurance, depending on the plan.

Starting this year, Part D plans must cover the shingles vaccine, along with other adult vaccines recommended by the CDC, at no cost. Greiner says not all pharmacies are aware of this change, so if you're on Medicare and were charged for a shingles vaccine administered after January 1, contact your Part D plan or a SHIP counselor for help getting a refund.

Rebates. Starting this year, manufacturers of drugs used by Medicare beneficiaries will be required to pay rebates to Medicare if their drug prices increase faster than the rate of inflation. The formula used to calculate rebates will be based on the drug's average price, so this provision could have a "spillover effect," slowing price increases for all users, not just Medicare beneficiaries, Purvis says. According to the Kaiser Family Foundation, prices for half of drugs covered by Medicare increased faster than the inflation rate between 2019 and 2020. However, inflation has risen sharply since then, which could mute the impact of this provision, at least in the short term.

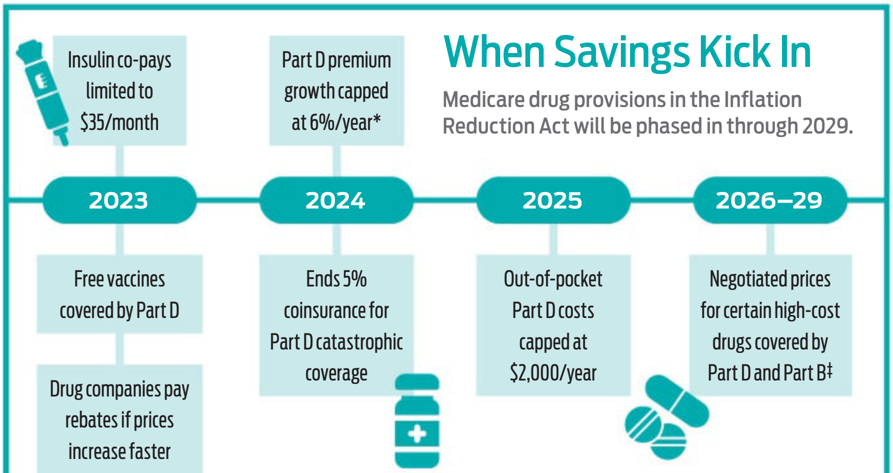
What's ahead. Starting in 2024, annual increases in Part D premiums will be capped at no more than 6% a year. In addition, participants will no longer pay coinsurance for Part D catastrophic coverage, which kicks in once out-of-pocket spending exceeds an annual threshold ($7,400 in 2023).

Starting in 2025, Part D participants' out-of-pocket spending will be capped at $2,000 a year. In future years, the cap will be indexed to the rate of increase in Part D per capita costs. The Kaiser Family Foundation estimates that 1.4 million Part D participants without low-income subsidies spent $2,000 or more on out-of-pocket costs in 2020.

Finally, starting in 2026, Medicare will begin negotiating prices for certain high-priced drugs covered by Part B and Part D. The number of beneficiaries who will benefit from negotiated prices will depend on the drugs selected and extent of price reductions, according to the Kaiser Family Foundation. CMS plans to announce the first 10 drugs it will select for price negotiations by September.

When Savings Kick In

Medicare drug provisions in the Inflation Reduction Act will be phased in through 2029.



*Through 2030. ‡10 drugs in 2026, 15 in 2027–28, 20 in 2029. SOURCE: Kaiser Family Foundation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INTERVIEW

RECESSION FORECAST: BRIEF AND MILD

The economy may already be in a downturn, but the jobs market will remain strong.

Dana Peterson is the chief economist for the Conference Board, a business and economics research group.

Some economists believe the economy has already gone into recession. Do you agree? We need more data to be sure, but our leading economic indicators have been signaling a recession starting sometime between February and April. We think the recession is going to be short and shallow, lasting just a few quarters, with not much damage to the labor market or deep declines in gross domestic product.

If the economy is in recession, why has the unemployment rate remained at historically low levels? Because there's a labor shortage. We have an entire generation of baby boomers who are retiring, and there's no quick solution to replace them. In 2000, we had four working people for every retired person. Now we have only three. We still have a number of people not participating in the labor market because of the pandemic. Some have long COVID and are unable to work. Many parents and caregivers are not able to work because people were laid off in child care or nursing during the pandemic and haven't returned. If you want to put your child in child care or place your parent in a nursing home, there's no room for them due to a dearth of workers.

What's your forecast for inflation for 2023? Our forecast is for an inflation rate of 3% at the end of 2023 and 2% at the end of 2024. A big driver of inflation last year was the fact that people were buying goods because they could not go out and enjoy services. Now the mix between buying goods and services is getting back to normal. In addition, a big chunk of what's driving inflation is higher rental prices, and that's a reflection of what happened in the housing market 12 to 18 months ago. Home prices peaked and have been slowing since. We expect that to show up in lower rents, but it will take a while.

Are there factors that could prevent inflation from easing? While we expect it to go down, it may not be a smooth ride. One challenge is the labor shortage. All our surveys tell us that businesses are raising wages to attract and keep talent. That gets passed through to customers and shows up in consumer prices. There are also external factors that influence inflation. The war in Ukraine is causing a reduction in exports of commodities like grain, and you have flooding and droughts all over the world that are impacting harvests. There's upward pressure on gas prices, a reflection of markets responding to the war in Ukraine. And China's reopening from the pandemic could mean it will need more oil, and more demand means global price increases.

Based on your economic outlook, when do you expect the Federal Reserve to stop raising interest rates? In light of the fact that consumer spending was stronger in January, we think the Fed is going to hike rates a quarter of a point at least three more times this year. However, stubborn inflation fueled by continued consumer spending and rising wages may prompt even more increases or even an increase in the magnitude of the hikes we project. At some point the Fed will stop and see how their policy tightening flowed through the system. We may see the first rate cut in the first quarter of 2024, but that could be at risk if inflation remains sticky. The Fed doesn't want to pull back too quickly and allow inflation to reemerge. **SANDRA BLOCK**

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UNHAPPY RETURNS

EXPECTING A BIG TAX REFUND? DON'T SPEND THE MONEY YET

Many taxpayers will receive a smaller check from the IRS in 2023.

FEW AMERICANS RELISH filing their tax returns—or paying someone else to do it—but the prospect of a refund provides a strong incentive to get the job done. This year, though, many taxpayers may be disappointed by the size of their annual check from the IRS. Through the end of February, the average tax refund was $3,140, down 11.2% from the same period in 2022.

There are several reasons your tax refund may be smaller this year. After sending out billions of dollars in stimulus checks during the pandemic, the federal government turned off the tap in 2022, which means you'll no longer have an opportunity to file for unclaimed stimulus checks. The child tax credit and the child and dependent care credits, which were increased under the pandemic-related American Rescue Plan, have been scaled back to previous levels. Those who received $3,600 for each eligible dependent in 2021 will receive a maximum of $2,000 per dependent in 2022. The child and dependent care credit returns to a maximum of $2,100, compared with $8,000 in 2021.

In addition, Congress didn't extend a pandemic-related provision that let taxpayers claim an above-the-line deduction for up to $600 in charitable contributions. Unless you itemize your deductions, you won't get a tax break for your philanthropic largesse in 2022.

Shrinking Refunds

Through mid February, the average tax refund declined more than 11%.

	2022	2023	% CHANGE
Tax returns processed (millions)	35.9	36.9	2.6%
E-filed returns from tax professionals	14.2	15.3	8.2
E-filed returns self-prepared	20.7	20.7	−0.1
Total number of refunds	22.1	27.8	25.9
Total amount refunded (billions)	$78.02	$87.24	11.8
AVERAGE TAX REFUND	**$3,536**	**$3,140**	**−11.2%**

SOURCE: IRS

Where's my refund? In her annual report to Congress, IRS Taxpayer Advocate Erin Collins said the agency was in a better position to serve taxpayers in 2023 than it was a year ago, when backlogs delayed processing of tax returns and customer service was abysmal.

If you e-filed your 2022 tax return and arranged for direct deposit, the IRS says you should receive your return in less than 21 days. For paper-filed returns, refunds take longer—four weeks or more. You can check the status of your refund at www.irs.gov/refunds.

If you file an amended return and are due a refund, you won't have to wait as long for your money as taxpayers did in the past. The IRS announced earlier this year that taxpayers who e-file an amended return on Form 1040-X can select direct deposit for any resulting refund. Taxpayers have been able to file amended returns electronically since 2020 but had to wait for the IRS to mail them a check.

Put your refund to work. Although average refunds are smaller this year, $3,140 is still a significant amount of money. While there's nothing wrong with a modest splurge, consider these strategies to get the most out of your refund:

- *Shore up your emergency fund.* Unemployment remains at record lows, but several major employers have announced big cuts, and layoffs will likely accelerate if the economy dips into recession. Aim to have six months of living expenses in a savings account.

- *Pay off credit cards.* Credit card balances rose to a record $986 billion at the end of 2022, according to the New York Federal Reserve. Meanwhile, rising interest rates have pushed the average credit card interest rate to more than 20%.

- *Save for retirement or out-of-pocket health care costs.* You can invest up to $6,500 in a Roth or traditional IRA in 2023 ($7,500 if you're 50 or older). If you have a qualified high-deductible health insurance plan (with a deductible of at least $1,500 for single coverage or $3,000 for family coverage), you can contribute to a health savings account. In 2023, you can contribute up to $3,850 for self-only coverage and $7,750 for family coverage, plus $1,000 if you're 55 or older. Contributions are pretax (or deductible if you're self-employed), the money grows tax-deferred, and you can use it tax-free to pay out-of-pocket medical expenses in any year.

SANDRA BLOCK

CALENDAR MAY 2023

THU 4

MON 1 **Hurricane season** starts June 1, which means it's also the season of flooding. If you're considering buying flood insurance through the National Flood Insurance Program, do it soon. There's typically a 30-day waiting period before flood coverage takes effect. For information on costs and coverage limits, go to www.floodsmart.gov.

THU 4 May the fourth be with you on ***Star Wars* Day**. Look for discounts of up to 80% on *Star Wars*–themed merchandise, such as graphic T-shirts, toys and accessories.

SUN 14 It's **Mother's Day.** The pandemic gave the delivery industry a boost, and options for floral deliveries have expanded. If you're thinking of having flowers delivered to your mom today, shop around, because you may have more choices than in the past.

MON 29 **Memorial Day** honors those who lost their lives in war. Consider donating to a charity that supports the families of fallen soldiers, such as the Children of Fallen Soldiers Relief Fund (www.cfsrf.org) and Angels of America's Fallen (www.aoafallen.org), both of which support families who have lost a parent or guardian in the line of duty.

MON 29 It's **529 College Savings Day**. Give your children or grandchildren a head start on paying for college by opening a college-savings account. Check your own state's plan first: Most offer a tax break for residents, and some will offer incentives today, such as matching funds for new accounts. For more on saving for college, see page 40. **EMMA PATCH**

DEAL OF THE MONTH

Look for Memorial Day sales on major appliances at big-box stores such as Home Depot, Lowe's and Best Buy. Warehouse clubs such as Costco and Sam's Club could also provide good deals, especially if you're shopping for multiple items. Expect to see discounts from 30% to 40% or even higher, says Julie Ramhold, consumer analyst for DealNews.

DANIEL HARVEY GONZALEZ/IN PICTURES VIA GETTY IMAGES (TOP); GETTY IMAGES

BRIEFING

INFORMATION ABOUT THE MARKETS AND YOUR MONEY.

LAS VEGAS IS ONE DESTINATION WHERE YOU MAY BE CHARGED RESORT FEES.

FIGHTING BACK AGAINST JUNK FEES

In his State of the Union address in February, President Biden talked about efforts to eradicate junk fees and his administration's proposed Junk Fees Prevention Act. The legislation mainly targets four kinds of fees and surcharges: service fees at concerts and sporting events, fees charged by airlines so family members can sit together, resort fees at hotels, and early-termination fees charged to consumers who want to switch cable TV, internet or mobile-phone providers.

As long as Republicans control the House of Representatives, most Biden initiatives are dead on arrival. The administration has had some success using regulations and applying pressure to restrict bank fees and lower the charges for late payments on credit cards (see "A Salvo Against Credit Card Fees," on page 51). It has also made progress nudging some companies to retreat on fees in the face of threatened new rules.

Bank fees. The Consumer Financial Protection Bureau has been targeting overdraft and bounced-check fees, and over the past year and a half or so, 15 of the 20 largest banks have ended bounced-check fees. The CFPB followed up by releasing guidance banning surprise overdraft fees—for overdrawing a checking account even though at the time of purchase there appeared to be sufficient funds—plus surprise depositor fees charged when you deposit someone else's bounced check. It looks as if banks have not raised other checking account fees to compensate for that lost revenue, according to the CFPB.

Airline fees. The Department of Transportation has proposed a rule to require airlines and online booking services to show the full price of a plane ticket up front, including baggage and other fees. The DOT also published a dashboard of airline policies when flights are delayed or canceled due to issues under the airlines' control (see "How to Deal With Turbulent Travel," on page 66). As of late February, nine airlines guarantee coverage of hotels and 10 airlines guarantee coverage of meals.

The Biden administration's proposed legislation and rules in the works from DOT would ensure that children who are age 13 or younger are seated next to an accompanying adult with no extra charge.

United said it is changing its policy effective in early March to make it "easier than ever" for kids younger than 12 to sit next to an accompanying adult for free. Other large airlines say they already have policies in place to find seats together with no additional seat fee.

How much new efficiency standards proposed by the Department of Energy could save consumers on utility bills for refrigerators and clothes washers over the life of the appliances.

ALAMY (TOP), GETTY IMAGES (BOTTOM)

Event ticket fees. In a review of 31 different sporting events across five ticket sellers' websites conducted by the Government Accounting Office several years ago, service charges averaged more than 20% of the ticket's face value, and total fees—including processing fees, delivery fees and facility fees—sometimes added up to more than half the cost of the ticket itself. Lack of competition in the industry—and few options for consumers—means that even if you know you'll have to pay a large fee on top of the ticket cost, you probably can't avoid it. The Junk Fees Prevention Act would cap service fees on tickets to concerts and sporting events and make companies disclose all fees up front.

Resort fees. You may see surprise "resort fees" or "destination fees" when you check out of a hotel or at the end of booking a reservation online. Over the past decade, a growing number of hotels have imposed these fees, which can be $20 to $50 or more per night—especially in cities such as Las Vegas, Miami and Orlando. The proposed law would require hotels to include them in the price of the room.

At ResortFeeChecker.com, you can look up properties to see how much they charge. If you don't expect to use the amenities the fee covers, try asking the hotel to remove it from your bill. Hilton and Hyatt hotels waive the fee if you book a stay with loyalty rewards points or a free-night award. **MARK SOLHEIM**

NEW SUVs ELIGIBLE FOR THE EV TAX CREDIT

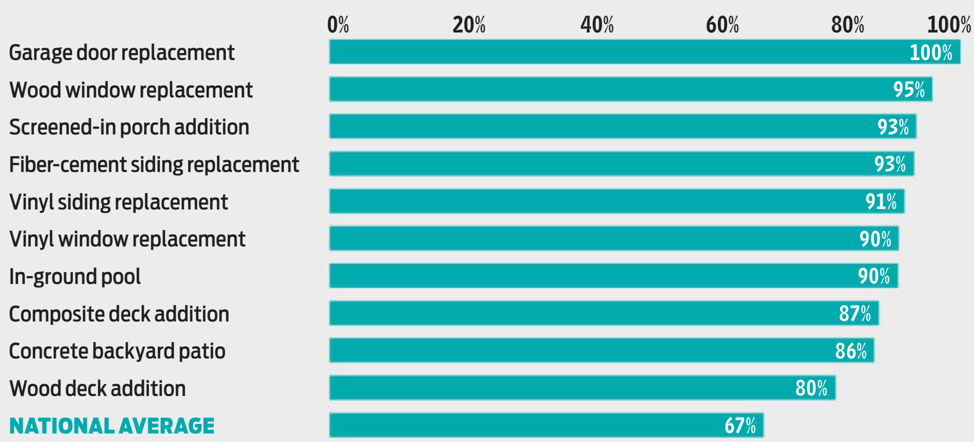

CADILLAC LYRIQ NOW QUALFIES FOR A TAX CREDIT.

COURTESY OF CADILLAC

At the end of 2022, the IRS released guidance to help determine which electric vehicles were eligible for a new $7,500 tax credit introduced under the Inflation Reduction Act. To be eligible, cars must have a manufacturer's suggested retail price less than $55,000, while eligible vans, pickup trucks and SUVs cannot have an MSRP of more than $80,000. To address confusion around vehicle classifications and price limits, the Treasury Department and the IRS released new guidance in February. Now several crossover vehicles, including the Tesla Model Y, Ford Mustang Mach-E and Cadillac Lyriq, qualify as SUVs and are eligible for the tax credit as long as the MSRP doesn't exceed $80,000. The new guidance is retroactive to January 1, 2023. **KELLEY R. TAYLOR**

REMODELING PROJECTS WITH THE HIGHEST RETURN

Of 34 home remodeling projects, these 10 have the highest average cost recovered nationally.



From *The Kiplinger Letter*

YOU'LL PAY MORE FOR A BABYSITTER

Need a babysitter? Prepare to open your wallet, as rates have jumped. The U.S. average in 2022 was nearly $23 per hour for one child, a 10% hike compared with 2021, outpacing inflation for the second straight year, says UrbanSitter, a website that links parents with babysitters. It's about $25 per hour for two children. Rates are generally highest on the East and West coasts, and cheaper elsewhere. San Francisco is the most expensive major urban area, at $25.24 per hour for one kid. Reasons for pricier sitters: a babysitter shortage, higher demand and rising inflation. Some good news: Rates should hold fairly steady this year, for the most part.

The KIPLINGER 25 FUNDS

Give Your Portfolio a Spring Cleaning

As the market evolves with the economy, it's time to reevaluate and reorganize your investments. Consider our favorite actively managed funds.

BY NELLIE S. HUANG

ILLUSTRATIONS BY LIAM EISENBERG

After several seasons of unpredictable market conditions, a spring cleaning can bring a sense of order to things. We're talking about your portfolio, of course. Moves you make now to ensure you hold the right mix of funds could be richly rewarding later. As renowned value investor Shelby Davis once said, "You make most of your money in the bear market. You just don't realize it at the time."

The past year was one for the record books, though it's also one that many would like to forget. Thanks to a wicked-fast succession of interest-rate hikes, bond markets have suffered historic losses. (Bond prices and interest rates move in opposite directions.) The broad bond benchmark, the Bloomberg U.S. Aggregate Bond index, turned in a 9.7% loss over the past 12 months. The rate hikes sent U.S. stocks into bear-market territory in 2022, although a sharp rally in recent months helped erase some of those losses: Over the past 12 months, the S&P 500 index declined 7.7%. Foreign shares, however, were a mixed bag. Stocks in developed countries, as measured by the MSCI

EAFE index, dipped a mere 3.1% over the past 12 months; emerging-markets stocks lost a whopping 15.3%.

Through it all, our Kiplinger 25 funds mostly performed better than the broad-market benchmarks, albeit with losses. Our diversified U.S. stock funds lost 5.6% over the past year; our bond funds, 4.9%. Our foreign stock funds turned in a medley of results, and lost 10.6%, on average.

Given that most markets—and funds—have declined over the past year, smart investors will carve out time now to review their portfolio and make any necessary adjustments. A good mix of holdings will include both stocks and bonds, pay adequate attention to small and large companies—foreign and domestic—and be balanced between value-priced shares and growth stocks. A broad assortment is key, because in coming years it is less likely that any one sector or small group of stocks will dominate market leadership, as was the case pre-pandemic, says Ken McAtamney, head of William Blair's global equity team. "We believe that diversity of growth, industries and business models at appropriate levels of valuation will make for optimal investment returns."

Good portfolios will also hold a mix of indexed and actively managed funds, says Dan Wiener, co-editor of *The Independent Adviser for Vanguard Investors*. But finding good active funds, he says, "takes work and it takes time."

That's where the Kiplinger 25, our favorite actively managed no-load funds, come in. We curate this list to find active managers that outperform their benchmarks over time. We don't always get it right, but we mostly do. Over the past decade, four of our Kip 25 stock funds outpaced the S&P 500; another five came close. Our bond funds shone: All but one beat the Agg index over the past decade (the one outlier, an emerging-markets bond fund, doesn't have a 10-year record).

Good stock picking should pay off. Now is a good time to own actively managed funds. Economic uncertainty and rising interest rates are an ideal environment for stock pickers, says Anu Ganti, senior director of index investment strategy at S&P Dow Jones Indices. In 2022, nearly half of all large-company active stock fund managers beat the S&P 500, compared with 15% in 2021. Over the past six months, 60% beat the benchmark.

This year, in our annual review of the Kip 25, we're making two changes. Parnassus Mid Cap, which has been on watch for two years, is out. The fund tends to do well during down-markets and lag in upswings. But lately it has trailed in both types of markets. Its replacement, Heartland Mid Cap Value, is a better complement to the other Kip 25 strategies because it is invested more in mid- and small-cap stocks than the Parnassus fund; it tilts more toward value, too.

The other change: Metropolitan West Total Return Bond is out, and Baird Aggregate Bond is in. The MetWest fund has lagged both the broad bond market and peer funds over the past three and five years. We liked the fund's leeway to invest in below-investment-grade sectors, such as high-yield bonds, bank loans and emerging-markets debt. But today's higher interest rates mean there's little need to goose yield with lower-quality credit, so we sought a more basic intermediate core bond fund. "There's no need to take on much risk to earn a good yield these days," the Baird managers told us. We agree.

As usual, we summarize each of the Kip 25 funds on the pages that follow. For facts and figures on the funds, see the table on page 26. To see how the funds might fit together in a portfolio, see the three basic models we built on page 21. All returns and data are through February 28.

Large-Company U.S. Stock Funds

DODGE & COX STOCK

Portfolio: Stocks in midsize-to-large firms with good prospects that are bought when shares are cheap.
Process: The fund's seven managers weigh a stock's price against a variety of factors, including a firm's financial strength; its competitive advantages; environmental, social and corporate governance issues the managers deem financially material; and the experience and competence of company executives.
Performance: Stock's six-month gain of 5.5% beat the S&P 500 by four percentage points. Stakes in energy stocks helped, as did health care positions, including Gilead Sciences.
Parting shot: Every well-diversified portfolio needs a good value fund, and Dodge & Cox Stock is a standout.

FIDELITY BLUE CHIP GROWTH

Portfolio: Shares in fast-growing companies of any size (most are large).
Process: Manager Sonu Kalra hunts for companies with potential for above-average earnings growth that the market has misjudged. He favors firms with competitive advantages, pricing power (the ability to raise prices without hurting demand), and executives who can deliver superior profits over the long term. A catalyst to drive earnings—a new product, say—is a plus.
Performance: Blue Chip Growth sank 19% over the past year, thanks to rising interest rates, which slashed the value of growth stocks. The fund holds the usual mega caps, including Microsoft, as well as stakes in small companies with potential for future profits.
Parting shot: The fund is best suited for intrepid investors with a long time to invest. Its 12.6% 15-year annualized gain beat the S&P 500 by an average of 2.8 percentage points per year.

MAIRS & POWER GROWTH

Portfolio: Stocks in growing firms trading at reasonable prices.
Process: The fund has a quirk: The managers invest about two-thirds

of the fund's assets in companies based in the upper Midwest, near Growth's home turf in St. Paul, Minn.
Performance: The managers avoid energy stocks, as they expect demand will slow for fossil fuels, but that was a drag on results in 2022. The fund declined 21%, compared with an 18% loss in the S&P 500. The fund also lagged its peers, large-cap funds with a blend of growth and value stocks.
Parting shot: Unlike its peers, this fund invests in companies of all sizes and tilts more toward growth. Over the past 15 years, the fund outpaced peers but just missed beating the S&P 500.

PRIMECAP ODYSSEY GROWTH

Portfolio: Fast-growing, midsize-to-large companies.
Process: Five managers divide the assets and pick stocks independently, but all seek firms with long-term potential that the market has underestimated.
Performance: The fund lagged the S&P 500 for four straight years, but pulled out a win in 2022, helped by a slug of health care stocks, as that sector gained ground over the past year.
Parting shot: Slumps are inevitable, but patient investors have reaped rewards. A $10,000 investment when the fund launched on November 1, 2004, would be worth $63,400 today; a similar bet in an S&P 500 index fund would be worth $49,000.

T. ROWE PRICE DIVIDEND GROWTH

Portfolio: Stocks in high-quality companies that are expected to raise dividends. The fund yields 1.1%.
Process: Manager Tom Huber prefers firms that have strong balance sheets, throw off plenty of cash and increase dividends. Top holdings include Microsoft and Apple. Last year, the fund added several new positions, including Walmart and Keurig Dr. Pepper.
Performance: Dividend Growth lost 2.2% over the past 12 months, which beat the S&P 500. The fund beat the broad-market benchmark over the past five years, too.
Parting shot: Dividend stocks can hold up well in dicey markets. "Downside support has been a consistent feature of the strategy," says Huber.

VANGUARD EQUITY INCOME

Portfolio: Big companies that pay fat dividends. The fund yields 2.8%.
Process: Two advisers run the fund. Wellington Management's Matthew Hand manages two-thirds of the assets; Vanguard's quantitative equity group runs the rest. Hand likes companies with above-average dividend yields trading at below-average valuations. Vanguard's group, headed by Sharon Hill, homes in on sustainable dividend growth, positive market

PORTFOLIOS

Create the Best Mix to Reach Your Goals

Use the models below as a starting point for your own portfolio, tweaking it in places to be more aggressive or more conservative according to your risk tolerance.

Aggressive Portfolio

TIME HORIZON:
11 years or more
STRATEGY: Invest 80% of assets in stocks and add a stable, core bond fund for the remaining 20%.

MUTUAL FUND	% of portfolio
Baird Aggregate Bond	20%
Dodge & Cox Stock	20
Primecap Odyssey Growth	20
Heartland Mid Cap Value	10
Baron Emerging Markets	5
Brown Capital Management International Small Company	5
Janus Henderson Global Equity Income	10
T. Rowe Price Small-Cap Value	10

Moderate Portfolio

TIME HORIZON:
Six to 10 years
STRATEGY: Hold 70% in stocks and 30% in bonds for a more temperate mix.

MUTUAL FUND	% of portfolio
T. Rowe Price Dividend Growth	20%
Baird Aggregate Bond	15
Dodge & Cox Stock	15
Fidelity International Growth	15
Fidelity Strategic Income Fund	15
Janus Henderson Global Equity Income	10
DF Dent Midcap Growth	5
T. Rowe Price Small-Cap Value	5

Conservative Portfolio

TIME HORIZON:
Five years or less
STRATEGY: A steady blend of 70% bonds and 30% stocks geared for income.

MUTUAL FUND	% of portfolio
Baird Aggregate Bond	25%
Fidelity Strategic Income Fund	25
T. Rowe Price Dividend Growth	15
Vanguard Equity Income	15
T. Rowe Price Floating Rate	5
TCW Enhanced Commodity Strategy	5
Vanguard Emerging Markets Bond	5
Vanguard High-Yield Corporate	5

sentiment, strong financial health and high dividend yields.
Performance: Both managers are new-ish (since 2021), but we like what we see so far. The fund beat the S&P 500 over the past year, with a 0.2% return, and with less volatility. Hand's top performers include Pioneer Natural Resources and ConocoPhillips; Hill's are H&R Block and EOG Resources.
Parting shot: Dividends help lower volatility and boost total returns.

Small- and Midsize-Company U.S. Stock Funds

DF DENT MIDCAP GROWTH

Portfolio: Stocks of midsize, growing companies.
Process: The managers favor "best in class" companies, defined as those having leading market-share positions, sustainable earnings growth, and management teams known for integrity and good corporate governance.
Performance: The fund was on fire until the pandemic. Since then, it has lagged its peer group (midsize-company growth funds) enough to drag down its long-term returns. Midsize growth stocks suffered in 2022 along with other fast-growing stocks, which don't do well in rising-rate environments. Although mid-cap shares overall have rebounded over the past six months, growth-oriented stocks are still lagging. The portfolio was light on energy stocks, too, which hurt because that sector outperformed.
Parting shot: Over time, this fund's focus on quality should help it shine.

NEW> HEARTLAND MID CAP VALUE

Portfolio: Undervalued midsize- and small-company stocks.
Process: Prospective stocks must fall within the Russell Mid Cap Value universe (shares in the index had a $21 billion average market value at last report) and score well on at least seven of 10 criteria. Half of those criteria are tied to value-oriented or financial-health metrics, such as low price-earnings multiples or low debt. The other half focus on qualitative measures, such as the strength of the firm's leaders, their business strategy or whether there's a catalyst to drive earnings. "Getting the five qualitative principles right has been the biggest determinant of whether we're right on the stock," says Colin McWey, one of three comanagers.
Performance: The managers have delivered above-average returns with below-average risk since the fund's inception in 2014. They balance the portfolio between two types of value stocks—deeply discounted shares and high-quality companies that trade at bargain prices. "The return patterns of these two buckets can fluctuate wildly," says McWey. "The only way to give yourself a chance of beating the mid-cap universe is to invest in both."
Parting shot: Stocks in the fund have an average market value of $11 billion. Oil and gas drilling equipment and products supplier NOV is a top holding, as are PPG Industries and Teradata.

T. ROWE PRICE INTEGRATED U.S. SMALL-CAP GROWTH EQUITY

Portfolio: Fast-growing small and midsize companies. Stocks in the fund, formerly called QM U.S. Small-Cap Growth Equity, have an average market value of $5 billion.
Process: A computer model guides the stock picking for this fund. But manager Sudhir Nanda also layers in the opinions of Price analysts to settle on high-quality firms with decent profitability trading at attractive prices.
Performance: The fund's value tilt helped it beat 81% of its peers (small-cap growth funds) over the past year as value shares outpaced their growth siblings recently. Over the past five years, the fund's 7.1% annualized return lagged its peers but beat the Russell 2000, a broad small-stock index.
Parting shot: The fund tends to hold up in tough times better than peers and lag during good times.

T. ROWE PRICE SMALL-CAP VALUE

Portfolio: Undervalued small-company stocks. The average holding has a market value of $2.5 billion.
Process: Manager David Wagner favors well-managed, profitable firms with strong balance sheets and good revenue growth. He buys when prices are cheap. Most recently, he picked up shares in biotech Apellis Pharmaceuticals and health care tech firm Phreesia as those stocks sank in 2022.
Performance: The fund beat the Russell 2000 over the past 12 months, thanks in part to its energy stocks.
Parting shot: The fund outclassed its typical peer (small blend funds) in seven of the past eight calendar years.

Foreign Stock Funds

BARON EMERGING GROWTH

Portfolio: Emerging-markets stocks. China, India and South Korea are its biggest country exposures.
Process: Manager Michael Kass invests in firms of all sizes with growth themes in mind, such as the spread of fintech or India's economic growth.
Performance: Emerging-markets stocks had a terrible year. The fund lagged its peers and the MSCI EM index. In part, that was due to big bets on Russia and China, markets that floundered for much of the past year.

Parting shot: There's hope for a turnaround this year. Shares in developing markets started 2023 near a 30-year low on a number of measures relative to U.S. stocks, says Kass. Plus, developing economies and company earnings are poised for improvement: Stronger local currencies relative to a weakening dollar buoy emerging economies, and the reopening of China will be an added shot of adrenalin.

BROWN CAPITAL MANAGEMENT INTERNATIONAL SMALL COMPANY

Portfolio: Small and midsize foreign firms in developed countries. Stocks in the fund have an average $2.7 billion market value. The U.K., France and Japan are its top country exposures.
Process: The managers hunt for what they call exceptional growth companies. Those include firms that, among other things, provide products or services that customers cannot live without; boast business models that others find difficult to compete with; and have smart managers at the top. Top holdings include Interparfums, a perfumes and cosmetics firm, and Lectra, which makes software and cutting-room systems for textiles.
Performance: Small and growth-oriented stocks were pummeled over the past year, and the fund lost 14%, lagging its benchmark. Still, comanager Dan Boston says the fund's holdings are solid. Stocks in the fund increased 2022 revenues by 22%, on average, even as their share prices lost ground.
Parting shot: The fund's five-year annualized returns beat 97% of its peers and walloped its benchmark.

FIDELITY INTERNATIONAL GROWTH

Portfolio: Shares in large and midsize growing companies in developed countries. Japan, France and Switzerland are top foreign-country positions.
Process: Veteran manager Jed Weiss looks for industry leaders that can raise prices for products or services without seeing a dent in demand and have strong growth potential. The share price matters, too. His research usually tips him toward stocks that fit into broad themes, including firms emerging from the pandemic in a stronger position after smart acquisitions. Travel firm Amadeus IT Group is one.
Performance: The fund lagged the MSCI EAFE index over the past 12 months. But Weiss's 15-year record, 5.5% annualized, beat the benchmark by nearly twofold. And he has outpaced peers, funds that invest in growing, large foreign stocks, in seven of the past 10 full calendar years.
Parting shot: This fund's a keeper.

JANUS HENDERSON GLOBAL EQUITY INCOME

Portfolio: Large, high-quality foreign companies that pay a dividend. The fund yields 3.8%.
Process: Global Equity Income can have up to 60% of assets in U.S. stocks, but it usually tilts more foreign—77% of the fund's assets are in non-U.S. shares. Three comanagers look for firms with strong free cash flow (cash remaining after operating expenses and investments in the business) and solid balance sheets that pay dividends and are bargain-priced relative to similar investments. Top holdings include Unilever and TotalEnergies.
Performance: The fund lost 3.1% over the past year, putting it ahead of the 8.3% loss in the MSCI ACWI, an index of global stocks.
Parting shot: The fund's cash-flow focus steers the managers clear of debt-laden firms that might look cheap. That has helped in recent years, says comanager Ben Lofthouse.

Specialized Funds

FIDELITY SELECT HEALTH CARE

Portfolio: Health care stocks.
Process: Manager Eddie Yoon plays offense and defense in this diversified sector fund. He loads up on outsize positions in stable, steadily growing companies (UnitedHealth Group) and faster-growing established firms (AstraZeneca), then spices up the portfolio with innovative companies (biotech firm Argenx).
Performance: Large health care stocks had a better year than the broad market. Select Health Care lost 2.0% for the period. Meanwhile, the fund's annualized five- and 10-year returns beat the top 10% of its peers.
Parting shot: Over the long haul, this diversified health care fund shines.

T. ROWE PRICE GLOBAL TECHNOLOGY

Portfolio: Tech stocks from all over.
Process: This fund is filled with fast-growing companies that offer vital services or products in expanding markets with shares that trade at reasonable prices. New manager Dominic Rizzo has reshaped the portfolio since arriving in 2022. Software firms, which accounted for half the portfolio last year, now make up 33% of assets; hardware, 1% of the fund in late 2022, is now 10%; and semiconductors jumped to 28% of assets, up from 22%. Tech titans Apple and Microsoft, absent from the fund at the start of 2022, now stand among the top holdings.
Performance: The fund had a dismal 2022, but over the past three months, its 5.7% return beat 79% of its peers. It's early days for Rizzo, but he says the portfolio is now nicely balanced. "We capture a lot of the upside on days the market is up, and on down days we hold up better."
Parting shot: A new manager is often reason to jettison a fund from the Kip 25, but we can't find another tech fund we like better. We're keeping it on the roster but watching it closely.

TCW ENHANCED COMMODITY STRATEGY

Portfolio: Commodity-linked investments backed by high-quality, short-

term bonds. The fund yields 3.6%.
Process: The fund aims to outpace an index that tracks prices for raw materials, including energy, grains, metals, cotton and livestock.
Performance: The fund's short-term bond side hurt its performance over the past year. Its one-year loss of 5.7% trailed the Bloomberg Commodity index, which lost 4.7%. Despite higher inflation, recession worries weighed on commodity prices, and rising rates curbed demand for raw goods.
Parting shot: Commodity prices are easing but "will remain considerably above their average over the past five years," according to the World Bank Group. Though appealing for now, this is not a hold-forever fund. We'll be watching economic signposts and shifting central bank policies closely.

Bond Funds

NEW> BAIRD AGGREGATE BOND
Portfolio: High-quality U.S. bonds. The fund yields 3.7%. Its duration (a measure of interest-rate sensitivity) is 6.2 years. That implies a 6.2% drop in the fund's net asset value if rates rise one percentage point over the next year; a similar gain if rates fall by a point.
Process: Mary Ellen Stanek and her co-chief investment officer, Warren Pierson, lead this fund's 10-person team, investing in high-grade government IOUs, asset-backed and mortgage-backed securities, and corporate debt. "We're not market timers," says Stanek. Instead, they keep it simple, aiming to modestly beat the Bloomberg U.S. Aggregate Bond index, before expenses, by matching the fund's duration to that of the benchmark and adding value through security selection, bond-sector allocation, and the fund's tilt at any given time toward short-, intermediate- or long-term bonds, among other things.
Performance: The fund beat its peers and the Agg index in seven of the past 11 full calendar years. Its 10-year annualized return, 1.3%, outpaced 79% of its peers and the Agg, too.
Parting shot: This fund yields less than the fund it is replacing, MetWest Total Return Bond. But Baird has lower expenses, and over the past decade it has been less volatile and more rewarding.

FIDELITY INTERMEDIATE MUNICIPAL INCOME
Portfolio: High-quality, medium-maturity bonds exempt from federal taxes. The fund yields 3.0%, or a tax-equivalent 4.0% for investors in the 24% federal income tax bracket.
Process: Three managers look for well-priced general obligation debt—muni bonds funded by state and local taxes—and revenue bonds, or IOUs for projects such as toll bridges that generate income to pay off the loan.
Performance: The fund's five-year annualized 1.6% return ranks among the top 24% of its peers.
Parting shot: This fund wins the race with slow and steady returns.

FIDELITY STRATEGIC INCOME
Portfolio: Bonds from a variety of sectors. The fund yields 5.6%.
Process: The fund invests in multiple sectors, keeping in mind a benchmark of 45% of assets in high-yield bonds (rated double-B to triple-C), 30% in U.S. government and other high-quality issues, 15% emerging-markets debt, and 10% in IOUs from developed foreign countries. Lead managers decide how much to devote to each sector; other pros pick the securities.
Performance: The fund lost 6.5% over the past 12 months, behind 61% of multisector bond funds. But it held up better than the Agg, down 9.7%.
Parting shot: Strategic Income has a solid long-term record.

T. ROWE PRICE FLOATING RATE
Portfolio: Short- to medium-term loans issued to firms with below-investment-grade credit ratings. These notes pay interest rates that reset every three months in line with a short-term benchmark. The fund yields 8.2%.
Process: Manager Paul Massaro and a team of analysts dive deep to find quality loans trading at a discount. Since the start of 2019, none of the loans in the portfolio have defaulted. Meanwhile, the bank-loan market has averaged a 1.6% default rate.
Performance: The fund delivered a 2.6% gain last year, beating 91% of its bank-loan-fund peers. Massaro added to positions among his favorite financials and reduced his stake in the health care industry.
Parting shot: With the Fed nearing a pause on its rake hikes, we're watching the market closely.

TIAA-CREF CORE IMPACT BOND
Portfolio: Medium-maturity, high-grade bonds. The fund yields 4.1%.
Process: Three comanagers invest in debt issued by firms that meet ESG measures and financial criteria. About 40% of the portfolio is devoted to projects that make a positive, measurable social or environmental impact.
Performance: The fund's 10-year annualized return handily beat the Agg index and 87% of its peers. But it lagged over the past year, with a 10.1% loss.
Parting shot: The fund's impact investments have helped 38 million people in the U.S. and Africa benefit from clean water and other projects.

VANGUARD EMERGING MARKETS BOND
Portfolio: Dollar-denominated debt in developing countries. Yield: 6.9%.
Process: Vanguard's Dan Shaykevich and Mauro Favini invest primarily in government bonds.
Performance: Over the past year, this

The KIPLINGER 25 FUNDS

Our Updated List

Performance matters, but so do fees. Here's everything you need to know about our recommended actively managed no-load funds.

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
DF Dent Midcap Growth	DFDMX	–11.5%	7.8%	11.0%	0.0%	0.85
Dodge & Cox Stock	DODGX	–3.8	9.1	12.0	1.3	0.51
Fidelity Blue Chip Growth	FBGRX	–19.3	11.7	15.2	0.0	0.76
NEW> Heartland Mid Cap Value	HRMDX	3.5	10.0	—	0.5	1.10
Mairs & Power Growth	MPGFX	–8.6	9.5	10.5	0.8	0.61
T. Rowe Price Dividend Growth	PRDGX	–2.2	10.7	12.1	1.1	0.62
T. Rowe Price Integrated US Sm-Cap Gr	PRDSX	–5.3	7.1	10.9	0.0	0.78
T. Rowe Price Small-Cap Value	PRSVX	–5.4	7.4	9.1	0.3	0.78
Primecap Odyssey Growth	POGRX	–4.0	6.3	12.5	0.5	0.65
Vanguard Equity-Income	VEIPX	0.2	8.8	10.7	2.8	0.28

International Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Baron Emerging Markets	BEXFX	–18.3%	–3.4%	2.5%	0.0%	1.33
Brown Capital Mgmt Intl Small Co	BCSVX	–14.0	5.5	—	0.0	1.31
Fidelity International Growth	FIGFX	–7.0	5.2	6.7	0.2	1.01
Janus Henderson Global Equity Income	HFQTX	–3.1	2.9	4.7	3.8	1.02

Specialized Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Fidelity Select Health Care	FSPHX	–2.0%	9.8%	14.4%	0.0%	0.68
T. Rowe Price Global Technology	PRGTX	–34.8	1.7	14.3	0.0	0.86
TCW Enhanced Commodity Strategy	TGABX	–5.7	6.3	–0.3	3.6	0.75

Bond Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
NEW> Baird Aggregate Bond	BAGSX	–9.8%	0.6%	1.3%	3.7%	0.55
Fidelity Interm Muni Income	FLTMX	–3.3	1.6	1.8	3.0	0.32
Fidelity Strategic Income	FADMX	–6.5	1.8	2.6	5.6	0.66
T. Rowe Price Floating Rate	PRFRX	2.6	3.2	3.3	8.2	0.75
TIAA-CREF Core Impact Bond	TSBRX	–10.1	0.3	1.4	4.1	0.64
Vanguard Emerging Markets Bond	VEMBX	–4.3	3.3	—	6.9	0.55
Vanguard High-Yield Corporate	VWEHX	–4.1	2.7	3.7	6.8	0.23
Vanguard Short-Term Inv-Grade	VFSTX	–3.6	1.2	1.4	4.8	0.20

Indexes	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield
S&P 500 INDEX	**–7.7%**	**9.8%**	**12.3%**	**1.7%**
RUSSELL 2000 INDEX*	**–6.0**	**6.0**	**9.1**	**1.4**
MSCI EAFE INDEX†	**–3.1**	**2.6**	**4.8**	**3.1**
MSCI EMERGING MARKETS INDEX	**–15.3**	**–1.9**	**1.5**	**3.2**
BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX#	**–9.7**	**0.5**	**1.1**	**4.8**

As of February 28. *Small-company U.S. stocks. †Foreign stocks. #High-grade U.S. bonds. —Fund not in existence for the entire period. SOURCES: Fund companies, FTSE Russell, Morningstar Inc., MSCI, S&P Dow Jones Indices. Yields listed for bond funds are SEC yields, which are net of fees; stock fund yields are the yield for the past 12 months.

fund's total return—change in net asset value plus interest payments—was a negative 4.3%. The typical emerging-markets bond fund lost 6.7%. **Parting shot:** The stars are aligning for emerging-markets bonds. High yields are a plus; high commodity prices help many emerging-markets producers; and China's reopening is a boon, too.

VANGUARD HIGH-YIELD CORPORATE

Portfolio: Short- to medium-maturity debt issued by firms with junk credit ratings. The fund yields 6.8%. **Process:** Manager Michael Hong, of subadviser Wellington Management, took on a comanager last summer. At the same time, Vanguard's in-house bond pickers stepped in to manage a third of the fund's assets, or about $8 billion. Both subadvisers emphasize the highest-quality junk, which helps lower the fund's risk profile. **Performance:** High-Yield Corporate has delivered above-average returns with below-average risk for the past five and 10 years. And it held up better than its peers over the past 12 months. **Parting shot:** Recessions aren't ideal for junk bonds, as the risk of default may rise. But strategists say these companies look financially stronger than usual, and current yields resemble stock-like returns. Just step cautiously.

VANGUARD SHORT-TERM INVESTMENT-GRADE

Portfolio: High-quality, short-maturity debt. The fund yields 4.8%. **Process:** Lead managers make the big-picture decisions; bond-sector specialists pick the securities. Currently, 80% of the fund is invested in corporate debt. The rest is spread among government, securitized and foreign debt. **Performance:** The fund lost 3.6% over the past year, lagging peers. But over 10 years, it ranks in the top 25% of its category. **Parting shot:** This is a sensible choice for short-term bond exposure. ■

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ORACLE OF OMAHA

Berkshire's Buys and (Mostly) Sells

Warren Buffett seems to have soured on financial stocks and semiconductors. BY DAN BURROWS

This time of year, as shareholders of Berkshire Hathaway make the pilgrimage to Nebraska to hear from the Oracle of Omaha in person at the company's May 6 annual meeting, we like to check on Berkshire's diverse investment portfolio. We're able to do that via the documents that the company is required to file each quarter with the Securities and Exchange Commission. The latest batch of filings show what chairman and CEO Warren Buffett, or his co-portfolio managers Ted Weschler and Todd Combs, were buying and selling at the end of 2022, providing some insight into what the greatest investor of all time might be thinking.

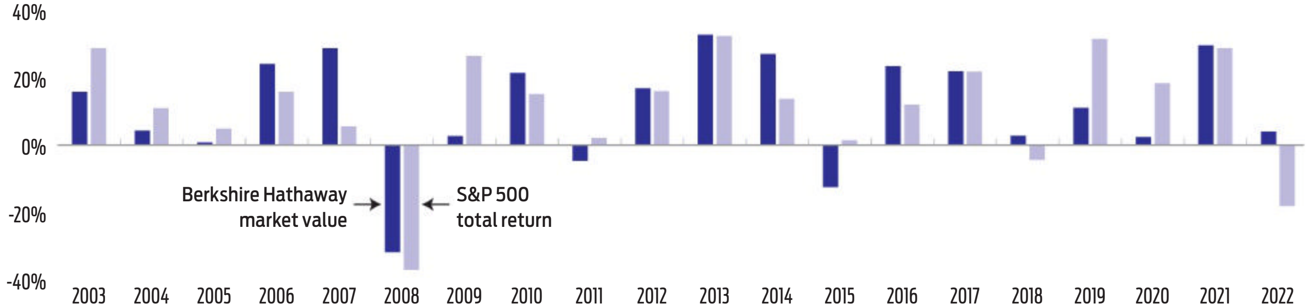
Buffettologists—and the rest of the market—got something of a shock when the latest portfolio moves came to light. Berkshire sold off most of its stake in **TAIWAN SEMICONDUCTOR MANUFACTURING** in the fourth quarter. Given that Buffett (or his co-managers) had initiated the Taiwan Semiconductor stake only a quarter earlier, it's understandable if investors—especially any who copied the move—now have a brutal case of whiplash.

After all, Buffett is famous for saying that his favorite holding period for a stock is "forever." When Berkshire Hathaway revealed that it had bought 60.1 million shares of Taiwan Semiconductor in the third quarter of 2022,

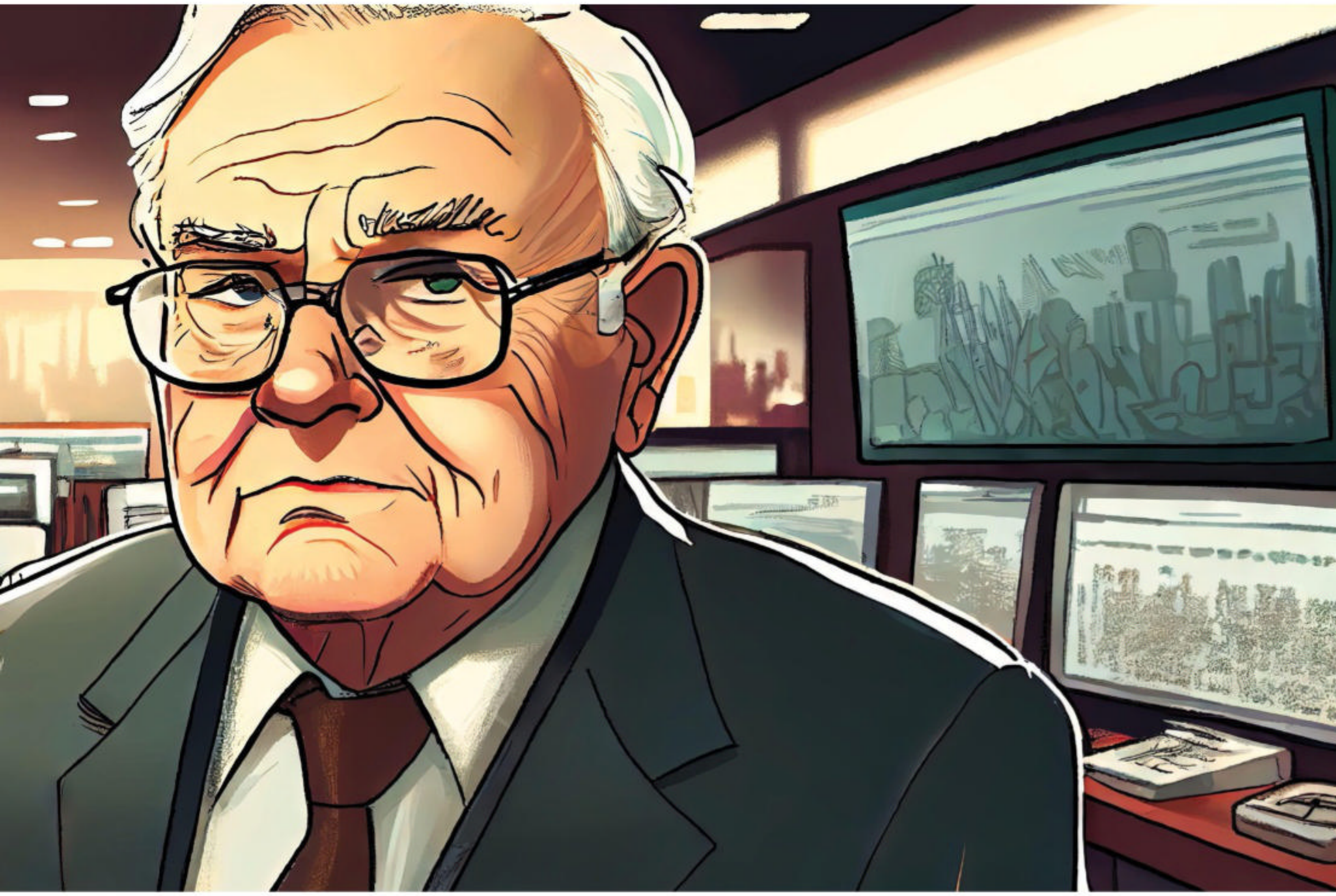
TRACK RECORD

BUFFETT VERSUS THE STOCK MARKET

Since 1965, Berkshire Hathaway has logged a compound annual gain of 19.8% a year, compared with 9.9% for the S&P 500, including dividends. The chart below shows returns from 2003 through 2022.



SOURCES: Berkshire Hathaway, Ycharts.



BRIAN PENNY/ALAMY

it was only natural for people to assume it was a long-term bet on the world's largest pure-play semiconductor foundry.

Fast-forward to today, however, and Buffett appears to have changed his mind. Berkshire slashed its Taiwan Semiconductor stake by 51.8 million shares, or 86%, according to regulatory filings. The semiconductor stock now accounts for just 0.2% of Berkshire's total portfolio value, down from 1.4% a quarter ago, when it was a top-10 holding. Berkshire likely made a small profit on the trade—the stock is up some 45% since hitting a low of $60 a share in early November—but Berkshire's abrupt loss of confidence sent the stock tumbling more than 5% on the day news of Berkshire's sale broke in mid February, with the drop stretching to double digits by the end of the month.

MOVING ON

As much as Taiwan Semiconductor dominated the conversation about which stocks Warren Buffett is buying and selling, it was hardly the only big change he made to Berkshire's portfolio. In a move that should surprise few Buffett watchers, Berkshire once again cut its investment in **U.S. BANCORP**. Buffett had slashed the number of shares by 35% in the previous quarter; this time, he cut Berkshire's stake by 91%, or 71.1 million shares. The sale is part of a long-term trend: Buffett has been getting out of big bank stocks for years.

U.S. Bancorp, the nation's fifth-largest bank by assets, is one of the oldest holdings in the Berkshire Hathaway portfolio. Buffett first bought shares in the industry's largest regional lender in the first quarter of 2006. The wholesale dumping of U.S. Bancorp over the course of two quarters means that the position now accounts for just 0.1% of Berkshire's stock portfolio. Not too long ago, the bank was one of Berkshire's top-10 holdings; today, it weighs in at number 38 (out of 49) and is an almost immaterial part of Berkshire's portfolio.

A similar fate befell **BANK OF NEW YORK MELLON**. After dumping more than 10 million shares in the third quarter of 2022, Berkshire cut its investment once again, by 59%, or 37.1 million shares, in the fourth quarter.

As a custodian bank, BNY Mellon holds assets for institutional clients and provides back-end accounting services. Its roots actually go all the way back to 1784, when Bank of New York was founded by a group including Alexander Hamilton and Aaron Burr. Today, the bank is the nation's 11th largest by assets, according to data from the Federal Reserve.

Buffett had been an admirer of Bank of New York for some time, and despite his dwindling love for banks in general, he had largely left his stake in BNY Mellon alone. But, as is the case with U.S. Bancorp, two consecutive quarters of selling have greatly diminished the bank's weight in the Berkshire portfolio. BNY Mellon now accounts for 0.4% of portfolio holdings, down from 0.8% at the start of the fourth quarter.

With other sales, Berkshire further wound down its stake in **ACTIVISION BLIZZARD**, cutting the number of shares in the portfolio by 12%. Either Ted Weschler or Todd Combs first bought shares in the video-game publisher, known for such titles as Call of Duty and World of Warcraft, in 2021. Buffett then upped the stake after Microsoft announced a takeover deal for the company worth nearly $69 billion—a merger arbitrage play, or simply betting that the merger would close.

But some investors are worried that the deal could be scuttled by antitrust regulators, and Berkshire reduced its stake in Activision in both the third and fourth quarters of 2022. Still, the game maker remains a top-10 holding, accounting for 1.4% of Berkshire's portfolio.

Other moves in late 2022 included parings of shares in health care services provider **MCKESSON**, down 10%; **CHEVRON**, down 1%; **KROGER**, reduced by less than 1%; and **ALLY FINANCIAL**, also cut less than 1% in terms of the number of shares. Despite the selling, Chevron's percentage of Berkshire's portfolio increased as oil stocks surged. The stock increased from a weighting of 8% to nearly 10%.

LITTLE BUYING

As for the other side of the ledger, things were very quiet as 2022 came to a close. Berkshire added shares in only three stocks. It boosted its stake in **LOUISIANA-PACIFIC**, a manufacturer of building products, by 21%, or 1.2 million shares. At a total of 7 million shares worth $417.1 million as of the end of 2022, the stock is a tiny bet for Buffett.

Berkshire also upped its holdings of **PARAMOUNT GLOBAL**, increasing its stake by 2%, or 2.4 million shares. The media company now accounts for 0.5% of the portfolio (which is down slightly from the previous quarter as overall portfolio weights shifted with the market) and is now Berkshire's 18th-largest holding.

Finally, Berkshire's stake in **APPLE**, its top holding at 38.9% of the portfolio, rose by 333,856 shares—a tiny increase of 0.04%, even as its weight in the portfolio decreased from 41.8% in the previous quarter. But Warren Buffett didn't go shopping for more of his favorite stock; rather, the Apple stock became Berkshire's property once it acquired Alleghany, another insurance company with its own portfolio of stock holdings. ■

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BERKSHIRE BY THE NUMBERS

LIGHTENING UP

Berkshire Hathaway's biggest buys and sells during the fourth quarter are ranked by the change in their weighting in Berkshire's portfolio. Some stocks decreased as a percentage of the overall portfolio despite the addition of shares. Top holdings are ranked by their portfolio weighting at year-end.

BIGGEST BUYS

Company	Symbol	Recent Price	Percent of portfolio	4Q change (percentage points)
Louisiana Pacific	LPX	$59	0.14%	0.04
Paramount Global	PARA	21	0.53	−0.06
Apple	AAPL	147	38.9	−2.86

BIGGEST SELLS

Company	Symbol	Recent Price	Percent of portfolio	4Q change (percentage points)
Taiwan Semiconductor Mfg	TSM	$87	0.21%	−1.18
U.S. Bancorp	USB	48	0.10	−0.96
Bank of New York Mellon	BK	51	0.38	−0.43
Activision Blizzard	ATVI	76	1.35	−0.16
Ally Financial	ALLY	30	0.24	−0.04

TOP HOLDINGS

Company	Symbol	Recent Price	Percent of portfolio	4Q change (percentage points)
Apple	AAPL	$147	38.9%	−2.86
Bank of America	BAC	34	11.2	0.89
Chevron	CVX	161	9.8	1.76
Coca Cola	KO	60	8.5	0.94
American Express	AXP	174	7.5	0.58

Stock prices as of February 28. Portfolio data as of December 31. SOURCES: Berkshire Hathaway, Securities and Exchange Commission, WhaleWisdom.

COURTESY OF FIRST SOLAR

THE KIPLINGER ESG 20 UPDATE

Our Picks Rebound With the Market's Turnaround

Recoveries in tech and alternative energy bode well for some of our environmental, social and governance standouts. BY KIM CLARK AND NELLIE S. HUANG

Just about everything except oil and defense stocks was on the down side of the early 2022 market teeter-totter. But since the overall market hit a recent bottom in mid October, the rebound leaders have included some members of the Kiplinger ESG 20, the list of our favorite stocks and funds with strong environmental, social or corporate governance qualities.

Overall, eight of our 15 ESG stocks beat the S&P 500's loss of 7.7% over the past 12 months. And 13 have exceeded the index's 12% gain since October 12. (Prices and returns in this update are through February 28.)

One big winner is First Solar—the stock has shot up almost 125% in the past 12 months. Since the broad market's bottom, First Solar has notched nearly double the S&P 500's 12% gain. Although the company declared losses for 2022, the stock was buoyed by federal solar subsidies and the firm's U.S. manufacturing strength, allowing it to escape a crackdown on Chinese suppliers that has hurt some competitors, says CFRA analyst Keven Young. Despite the stock's runup, Young advises investors to hold on. He sees an "explosion" of solar demand in the U.S. and notes that the company has orders booked through 2027.

Another ESG 20 champ: chipmaker Nvidia, which wins high ESG ratings in part for its employee support. Nvidia's stock is down slightly over the past year but has more than doubled since mid October. Nvidia is the dominant producer of AI processors for popular new artificial intelligence services, including ChatGPT.

Mixed results. Some of the ESG 20 have struggled, however. Although the one-year return for cereal maker Kellogg is positive, outpacing the S&P 500, the stock is down nearly 6% since mid October. In June, Kellogg announced plans to split into three companies specializing in snacks, cereal and plant-based foods, such as its Morning-Star patties. But sales of many meat substitutes sank last year, reducing investor enthusiasm for stocks in the industry, and Kellogg decided against that part of the spin-off. Analysts who are lukewarm on Kellogg have mentioned uncertainty about the spin-off as a key reason. We're watching the stock.

Another laggard: Target, whose shares lost almost 14% over the past 12 months, despite a recent uptick. The retailer gets kudos from ESG experts for the way it aligns executives' incentives with long-term goals. Increasing competition from retail giants Walmart and Amazon.com is a concern, but strong sales in grocery and other staples allowed Target to post better-than-expected results for the quarter that ended January 28.

Among our ESG 20 funds, three beat their bogeys over the past 12 months, and two didn't. We'll focus on the laggards: Brown Advisory Sustainable Bond trailed the Bloomberg U.S. Aggregate Bond index. The fund's high-yield and high-quality corporate debt weighed on returns in the first half of 2022, but we're not worried. The managers trimmed their corporate stake throughout the year and doubled their holdings in Treasuries and mortgage-backed securities. Our most aggressive fund, Putnam Sustainable Future ETF, lagged the Russell Mid Cap index. The fund's sweet spot, tech growth stocks (31% of assets), got hit by interest rate hikes and growing worries of an economic slowdown. The fund has rebounded 11.9% since its October low, though that still trails the index. When growth stocks come back, we're sure this fund will, too. ■

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SUSTAINABLE PICKS

THE KIPLINGER ESG 20 AT A GLANCE

The stocks and funds below are environmental, social or governance exemplars, while also possessing solid financial fundamentals.

Environmental Stewards

These companies offer products, services or technologies that provide solutions to problems such as greenhouse gas emissions, air and water pollution, or resource scarcity.

Company	Symbol	Industry	Price	Market value (billions)	Price-earnings ratio	Annualized total return 1 yr.	3 yrs.
First Solar	FSLR	Solar	$169	$18.0	35	124.7%	54.6%
Levi Strauss	LEVI	Apparel Manufacturing	18	7.1	13	–18.8	3.5
Microsoft	MSFT	Software-Infrastructure	249	1,856.6	27	–15.7	16.6
Prologis	PLD	REIT–Industrial	123	114.0	52	–13.2	16.0
Xylem	XYL	Specialty Industrial Machinery	103	18.5	32	16.8	11.1

Social Standouts

These companies support their employees, customers and suppliers and treat them fairly, while positively impacting their community and the world at large.

Company	Symbol	Industry	Price	Market value (billions)	Price-earnings ratio	Annualized total return 1 yr.	3 yrs.
Kellogg	K	Packaged Foods	$66	$22.5	16	6.8%	6.7%
Nvidia	NVDA	Semiconductors	232	573.4	53	–4.7	51.0
Salesforce	CRM	Software–Application	164	163.6	29	–22.3	–1.4
Trane Technologies	TT	Specialty Machinery	185	42.4	22	21.9	19.6
W.W. Grainger	GWW	Industrial Distribution	668	33.6	20	41.6	35.3

Governance Leaders

These companies are committed to diverse and independent boards, strong ethics policies, responsible executive pay that is tied to performance, and combatting corruption.

Company	Symbol	Industry	Price	Market value (billions)	Price-earnings ratio	Annualized total return 1 yr.	3 yrs.
Applied Materials	AMAT	Semiconductors	$116	$98.2	16	–12.7%	27.0%
CBRE Group	CBRE	Real Estate Services	85	26.4	18	–12.1	14.9
Clorox	CLX	Household & Personal Products	155	19.2	40	9.8	2.0
Hilton Worldwide Holdings	HLT	Lodging	145	38.5	25	–2.5	14.3
Target	TGT	Discount Store	169	77.6	17	–13.6	20.2

ESG Funds

These funds might focus on an ESG category, seek a measurable impact on a specific challenge, integrate ESG criteria into a broader strategy or engage with firms to improve ESG practices.

Mutual Fund/Exchange-Traded Fund	Symbol	Category	Expense ratio	Annualized total return 1 yr.	3 yrs.
Brown Advisory Sustainable Bond	BASBX	Intermediate Core-Plus Bond	0.49%	–10.7%	–3.0%
FlexShares Stoxx Global ESG Select Index	ESGG	World Large-Stock Blend	0.42	–6.8	11.0
Green Century Balanced	GCBLX	Allocation—50% to 70% Equity	1.46	–7.8	6.9
Pax Global Environmental Markets	PGRNX	World Large-Stock Blend	1.15	–2.9	11.3
Putnam Sustainable Future ETF	PFUT	Large Growth	0.64	–16.3	—

Indexes

Index	Annualized total return 1 yr.	3 yrs.
S&P 500 INDEX	–7.7%	12.1%
BLOOMBERG U.S. AGGREGATE BOND INDEX	–9.7	–3.8
MSCI ALL COUNTRY WORLD INDEX	–8.3	8.8

As of February 28. —Fund not in existence entire period.
SOURCE: Morningstar Direct

STREET SMART | James K. Glassman

Value Investing Is Back

It looks like value stocks are making a comeback. Growth stocks clobbered value for about a decade. In 2020, they beat value by more than 30 percentage points—the widest margin since at least 1927. Then, in 2022, growth took a sickening dive. A popular exchange-traded fund linked to a major growth-stock index, iShares S&P 500 Growth, fell 29.5%. The value-stock equivalent, **ISHARES S&P 500 VALUE**, dropped as well, but just by 5.4%. (Unless otherwise noted, returns are as of February 28; securities I recommend are in bold.)

Value and growth stocks move in cycles. The 1980s were led by value stocks; the 1990s by growth. Value beat growth for seven consecutive years starting in 2000; then growth dominated through 2021. Could this be the start of a new surge for value stocks? If you look back far enough, you might conclude that value never really went away. "There is pervasive historical evidence of value stocks outperforming growth stocks." That is the conclusion of a report last year by Dimensional Fund Advisors, an index-investing specialist with about $600 billion under management. From 1927 to 2021, Dimension calculated, value stocks annually returned 4.1 percentage points more than growth stocks, on average.

That's an enormous difference, but it's no solace to value investors who missed the growth-stock boom, led by giant tech companies, that followed the last recession. The question is why we should believe that a shift to value is actually at hand.

Straw hats in winter. First, understand the difference between value and growth. Value stocks are generally out of favor. They are less flashy, and their profits accumulate less quickly.

VALUE BEATS GROWTH IN THE LONG RUN BECAUSE VALUE STOCKS ARE CHEAPER WHEN YOU BUY THEM, AND GROWTH STOCKS DON'T STAY HOT FOREVER.

So investors pay fewer dollars for every dollar of a value stock's earnings, revenues and net assets. Growth stocks are well loved by the market, and growth investors like jumping on fast-moving freight trains. Value stocks are underappreciated by the market while growth tends to be overappreciated.

"Over the last decade, low interest rates and a higher appetite for risk have fueled [the outsize] performance of growth," said Tano Santos, a professor of finance at the Columbia Business School, last October. "Now that both things have changed ... investors are required to look more closely at the underlying quality of the business operations of the firm." Value stocks surface with scrutiny of a company's balance sheet and its ability to withstand competition.

Index providers at S&P Dow Jones Indices choose value using three criteria: a low ratio of a stock's price to its earnings (P/E), book value (or net worth on the balance sheet) and revenues. FTSE Russell, another large research firm, uses a single criterion, the ratio of price to book value (P/B). Recently, the Russell 1000 Value index, which draws from the 1,000 largest stocks by market capitalization (or price times shares outstanding), had a P/B of 2.5, while the Russell Growth index had a P/B of 9.6. The average P/E of the Russell Value index was 15.7, compared with 25.9 for the Growth index. Value stocks usually carry higher dividend yields. The Russell Value index sports a yield of 2.2%; Growth, 1%.

The reason that value beats growth in the long run is that value stocks are cheaper when you buy them, and growth stocks don't stay hot forever. In fact, growth doesn't stay *growth* forever. You may be surprised to learn that right now, three of the six most heavily weighted stocks on the S&P Value index are tech giants: **MICROSOFT**, at number one; **AMAZON.COM**; and **META PLATFORMS**, the former Facebook. (Microsoft and Amazon are both in S&P's Growth index as well; some stocks can have both qualities.)

I like all of these unlikely value stocks. Meta—the only tech giant in the Russell 1000 Value index (which, remember, uses only P/B as a ticket for admission)—now trades at a P/E of just 16, based on profit projections for 2024 by a consensus of analysts.

The difference in performance between value and growth tells us that buying out-of-favor stocks—in whatever sector—pays more in the long run than buying stocks with which investors are infatuated.

This value creed has been the watchword of the greatest investors in history,

ILLUSTRATION BY PATRICK WELSH

notably including Warren Buffett, his mentor Benjamin Graham, John Neff, Donald Yacktman and David Dreman. The torch was passed recently to David Booth, the founder of Dimensional Fund Advisors. Three years ago, I quoted him as saying, “The rationale for investing in value stocks is as strong as ever. The less you pay for a stock, the higher your expected return.” That first sentence was belied by the terrible relative performance of value the very next year. (Market timing is impossible.) But the second sentence is absolutely correct.

Herd mentality. So why do growth and value move in cycles? The best explanation is that investors move in packs. Their enthusiasm is contagious but eventually wears out. In addition, just a few huge growth stocks can pull that style train—at least for a while. Then, momentum works in the opposite direction.

Because stocks travel between style categories, the best way to invest in value is through funds, which regularly rebalance their portfolios to take changes into account. In addition to the iShares S&P 500 Value ETF, which carries an expense ratio of 0.18%, you can choose **VANGUARD S&P 500 VALUE**, with expenses of just 0.1%, or **ISHARES RUSSELL 1000 VALUE** or **VANGUARD RUSSELL 1000 VALUE**, among others.

THE BEST WAY TO INVEST IN VALUE IS THROUGH FUNDS. COLUMBIA SELECT LARGE CAP HAS A REASONABLE EXPENSE RATIO AND AN ANNUALIZED 10-YEAR RETURN OF 11%.

Another approach is to let smart stock pickers do the selecting. An obvious choice is **BERKSHIRE HATHAWAY**, Buffett’s holding company, which owns large stakes in such traditional value stocks as Kraft Heinz, with a dividend yield of 4%, as well as **COCA-COLA**, yielding 3.1%, and Chevon, paying 3.7%. Berkshire has declined just 5% in the past 12 months, compared with a 16% loss for the S&P 500 Growth index. (For more on Berkshire’s portfolio see “Berkshire’s Buys and (Mostly) Sells,” on page 28.)

COLUMBIA SELECT LARGE CAP VALUE has a reasonable expense ratio for a managed mutual fund of 0.54% and an annual average return of 11.3% over the past 10 years, beating the iShares and Russell value index ETFs. The portfolio of 36 stocks includes heavy investments in the insurance giant Cigna Group, yielding 1.7%; Wells Fargo, 2.6%; and **VERIZON COMMUNICATIONS**, 6.7%. Another excellent managed fund is **AMG YACKTMAN FOCUSED**, run for the past 20 years by Donald’s son Stephen. The low-turnover fund owns such value classics as **JOHNSON & JOHNSON**, yielding 2.9%; Procter & Gamble, 2.6%; and **PEPSICO**, 2.6%. The drawback is a relatively high expense ratio of 1.25%.

NORTHERN SMALL CAP VALUE, with an expense ratio of 1%, specializes in stocks that have been the most unloved of all over the past decade or so. The fund, which has a huge portfolio, has returned an annual average of 8.2% for 10 years. Among the top holdings are Tegna, the national media company that used to be called Gannett; Commercial Metals, a steel fabricator with a P/E based on expected earnings of just 10; and **MOOG**, maker of aerospace controls.

What’s remarkable about value is that it not only produces higher returns than growth over the long term but also carries less risk. Using beta (which measures movement of an asset relative to the market overall) as a metric, the S&P 500 Value index is 15% less volatile than the Growth index. Although individual value stocks such as the ones I’m recommending are appealing right now, I like the idea of a portfolio balanced between one or two value funds and several growth funds or stocks. I’m not giving up on great growth companies, but now is the time to return to value. ■

BARGAIN BIN

TIME FOR VALUE TO SHINE?

The funds below are a good way to invest in value stocks, which are less expensive relative to yardsticks such as book value or earnings and offer attractive yields.

Mutual fund	Symbol	Expense ratio	Avg. stock yield	Annualized total return 1 yr.	5 yrs.	10 yrs.
AMG Yacktman Focused	YAFFX	1.25%	2.1%	–4.0%	9.7%	10.0%
Columbia Select Large Cap Value	CSVZX	0.54	2.4	–1.9	8.9	11.3
iShares Russell 1000 Value	IWD	0.18	2.2	–3.0	7.0	9.4
iShares S&P 500 Value	IVE	0.18	2.0	1.3	8.6	10.2
Northern Small Cap Value	NOSGX	1.00	1.9	–1.3	5.3	8.2
Vanguard Russell 1000 Value	VONV	0.08	2.2	–2.9	7.1	9.5
Vanguard S&P 500 Value	VOOV	0.10	2.0	1.3	8.6	10.3
S&P 500 VALUE INDEX			**2.0%**	**1.5%**	**8.7%**	**10.4%**

As of February 28. SOURCE: Morningstar Direct

JAMES K. GLASSMAN CHAIRS GLASSMAN ADVISORY, A PUBLIC-AFFAIRS CONSULTING FIRM. HE DOES NOT WRITE ABOUT HIS CLIENTS. HIS MOST RECENT BOOK IS *SAFETY NET: THE STRATEGY FOR DE-RISKING YOUR INVESTMENTS IN A TIME OF TURBULENCE.* OF THE STOCKS MENTIONED HERE, HE OWNS MICROSOFT AND AMAZON. YOU CAN REACH HIM AT JKGLASSMAN@GMAIL.COM.

ETF SPOTLIGHT

Invest in the Metaverse?

The metaverse is a wild virtual landscape where you can shoot digital weapons at cartoon zombies, send your avatar to an online concert or try to make real-world money. Fund companies are inviting investors to join this new gold rush via exchange-traded funds with stakes in the chipmakers, game companies, social networks and communications firms that help to create online worlds. The most recent entrant is from ETF giant Blackrock, which introduced the iShares Future Metaverse Tech and Communications ETF in February.

The oldest and largest fund in the theme is **ROUNDHILL BALL METAVERSE ETF**, launched in June 2021, with more than $400 million in assets. It tracks an index created by Matthew Ball, author of a popular book on the metaverse. The index comprises 51 firms, including tech giants such as Apple, game companies, payment enablers such as cryptocurrency platforms, and content providers including Walt Disney.

The ETF lost 53% in 2022 due to the crypto collapse and plunges in the share price of holdings such as game-platform Roblox, Meta Platforms and chipmaker Nvidia. But with a rebound in tech stocks, the fund started to recover in the first two months of 2023, rising more than 16%—more than quadruple the gain of the S&P 500 index.

Dave Mazza, chief strategy officer for Roundhill Investments, says he hopes the difficult year makes investors more realistic about the risks—and rewards—of the metaverse. "There is significant excitement about experiences that span the real and virtual worlds" he says. "The metaverse has the potential to be the successor to today's internet." **KIM CLARK**

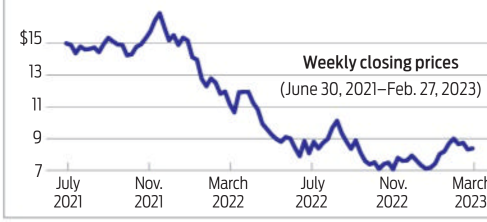
Kim.Clark@futurenet.com

Roundhill Ball Metaverse ETF

KEY FACTS

SYMBOL: METV
RECENT PRICE: $8.39
ASSETS: $411 million
START DATE: June 30, 2021
STOCK HOLDINGS: 51
AVG. PRICE-EARNINGS RATIO: 22.8
AVG. MARKET VALUE: $135 billion

PERFORMANCE SINCE INCEPTION



TOP FIVE HOLDINGS

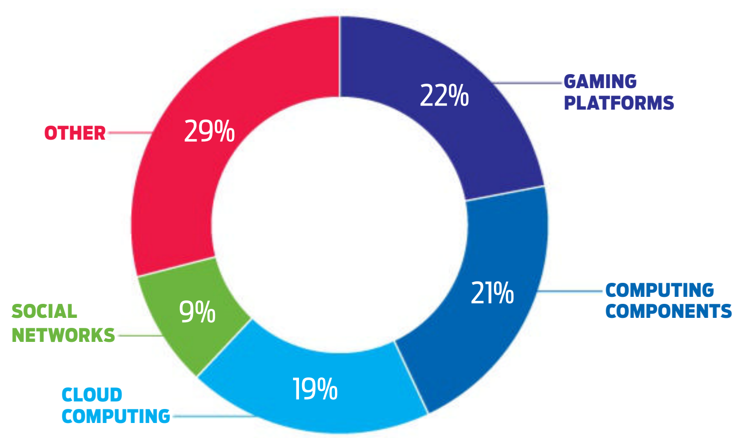
NVIDIA (NVDA)	9.8%
ROBLOX (RBLX)	7.9%
APPLE (AAPL)	7.5%
META PLATFORMS (META)	7.1%
MICROSOFT (MSFT)	5.3%

0.59%

ANNUAL EXPENSE RATIO

$59 annually on a $10,000 investment

TOP STOCK THEMES



SELECT METAVERSE ETFs Ranked by assets

Name	Symbol	Price	Expense Ratio	Launch date	Assets (millions)	Total return YTD	Total return 1-yr.
Roundhill Ball Metaverse	METV	$8	0.59%	6/30/21	$411.2	16.4%	–30.5%
Fidelity Metaverse	FMET	22	0.39	4/19/22	13.2	10.1	—
ProShares Metaverse	VERS	32	0.58	3/15/22	6.1	13.9	—
Fount Metaverse	MTVR	16	0.70	10/27/21	5.1	7.9	–23.4
iShares Future Metaverse Tech	IVRS	24	0.47	2/14/23	4.8	—	—
S&P 500 INDEX						**3.7%**	**–7.7%**

As of February 28. — Fund not in existence entire period. SOURCES: Yahoo Finance, Fund companies, Morningstar Direct.

INCOME INVESTING | Jeffrey R. Kosnett

Time to Consider Foreign Bonds

I normally dismiss international bonds and bond funds, whether denominated in U.S. dollars or in native currencies. Looking back five years through March 3, which allows for events besides the COVID lockdowns and war in Ukraine, the broad Standard & Poor's international aggregate investment-grade index (covering developed markets) lost an annualized 2.2%, in U.S. dollars. Even counting 2022's catastrophe, S&P's U.S. aggregate bond index posted a 0.6% annual return—almost a three-point yearly advantage for staying home.

Sector and single-country comparisons do not change the narrative. Australia has a powerful export and commodity economy and relatively high bond yields—yet its corporate bonds are also 2% a year in the red since 2018, in U.S. terms. The closed-end **ABERDEEN ASIA-PACIFIC INCOME FUND** (SYMBOL FAX), which glittered from the 1990s to about 2013, is off 1.8% a year for five years and languishes at 14% below its net asset value. In its heyday, this fund commanded a premium.

Much of this reflects the muscular U.S. dollar, down slightly from its late-2022 peak but nearly 50% stronger (measuring by DXY, the U.S. Dollar Index) than it was five years ago. During this time, much of the world grew slowly, if at all, and often resorted to negative interest rates. You do not need a Ph.D. in economics to understand the folly of buying bonds from foreign countries with falling currencies and zero or negative yields.

IN 2023, INTERNATIONAL BONDS DESERVE A PLACE ON THE FRINGES OF A TOTAL-RETURN-ORIENTED FIXED-INCOME PORTFOLIO.

Sniffing out bargains. And yet, as we often see in stocks and real estate, bargain hunters sense opportunity in unlikely places. Hence the signs of a rally in overseas debt. I call it a bounce rather than a sustainable trend. Once the U.S. inflation rate recedes closer to 3% (according to the gauges eyed by bond traders, rather than the consumer price index, which is distorted by rent and gasoline), domestic bond prices will boom. I advise patience and reinvestment into funds that invest in corporate IOUs rated A and BBB, high-yield bonds, and municipals.

But in 2023, and perhaps into next year, international bonds deserve a place on the fringes of a total-return-oriented fixed-income portfolio. The reasons include Europe's apparent victory over the Russian gas embargo, the absence of the supposed global recession, the retreat in the dollar, China's reopening, expectations of better European growth and, most compelling of all, the end of those ridiculous negative interest rates.

Consequently, for the first 10 weeks of 2023, scores of big international bond funds are in the green, including **PIMCO INTERNATIONAL BOND** (PFOAX), up 1.1%, and **VANGUARD TOTAL INTERNATIONAL BOND INDEX** (VTIBX), ahead 0.88%. That isn't world-changing, but the last time the Vanguard fund had a good run was in 2019. The Pimco fund is actively managed and more creative, which means it can get into trouble, but that is also why I prefer it to the giant Vanguard index fund. Pimco pays more—the current yield is 2.7%—and it has dozens of eyes and ears all over the world, which allows it to go in on securities you do not find in indexes, such as mortgages with wide spreads and undervalued corporate bonds in various countries. If you are going to take a plunge in these waters, seek more adventures rather than fewer. That Aberdeen closed-end fund mentioned above is up almost 6% this year. (Funds I like are in bold; you can skip the sales fee on load funds on some brokerage platforms.)

Some of the highest year-to-date returns in this category are from emerging-markets funds that buy bonds in local currencies. That gives you maximum upside when Asian and Latin American currencies gain on the dollar, which several have so far this year. (Note that most major-market international bond funds hedge the dollar.) If you are game to speculate, **INVESCO EMERGING MARKETS LOCAL DEBT** (OEMAX) is up 2.8% so far in 2023 and distributes between 5% and 6% a year. It badly trails Aberdeen Asia-Pacific and Pimco's and Vanguard's broader, higher-quality international funds over the long haul. But every now and then, you can unexpectedly reel in a big fish. In 2016 and 2017, Invesco returned 12% and 15%. It is not impossible. ■

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ILLUSTRATION BY PATRICK WELSH

MONEY

GOOD NEWS ABOUT PAYING FOR COLLEGE

Tuition hikes are slowing as schools brace for declining enrollment. But college is still a major investment. Here's how to prepare no matter your child's age. BY LISA GERSTNER

Make no mistake: Paying for college is a significant undertaking for many families. For the 2022–23 academic year, the average estimated budget for an undergraduate in a four-year program was $27,940 at an in-state public university, $45,240 for an out-of-state public university and $57,570 for a private university, according to the College Board (estimates include tuition, fees, room and board, books and supplies, transportation, and other personal expenses).

But following decades of tuition increases that outpaced inflation, a confluence of factors has curbed growth in the cost of higher education. After adjusting for recent high inflation, average tuition and fees fell in the 2021–22 and 2022–23 academic years.

To provide relief from the financial effects of the pandemic and soaring inflation—and to attract students as enrollments decline—some institutions have frozen tuition. For example, four-year public institutions in New Hampshire are freezing tuition for in-state students for the 2023–24 academic year (marking the fifth consecutive year of freezes), and the University of Vermont is doing the same for all its students.

Some schools are even cutting tuition rates. Elite colleges and universities have no trouble drawing applicants despite steep admission prices, but some small, less-well-known private colleges are finding that high sticker prices are deterring prospective students, even though most students receive aid that reduces the amount they pay. For the upcoming academic year, Colby-Sawyer College, in New

WASHINGTON & JEFFERSON COLLEGE, IN WASHINGTON, PA., REDUCED TUITION BY 44%.

COURTESY OF WASHINGTON & JEFFERSON COLLEGE

COLBY-SAWYER COLLEGE, IN NEW LONDON, N.H., SLASHED TUITION BY 62%.

London, N.H., is slashing tuition for four-year undergraduate students to $17,500—a 62% decrease from the previous year. Washington & Jefferson College, in Washington, Pa., is offering a $27,605 tuition price, a 44% reduction. Lasell University, in Auburndale, Mass., is lowering tuition to $26,000, and the combined cost for tuition and room and board will shrink by one-third.

The trends are encouraging for families who are preparing to send kids to college, but saving enough to cover at least some of the costs and navigating financial aid and student loans can still be formidable tasks. Whether you're thinking ahead about a young child's future education expenses or nearing the day your student heads to campus, we've outlined strategies you can use to get the most bang for your buck. And on page 47, we dive into the demographic shifts that are reshaping higher education with Nathan Grawe, a professor of economics at Carleton College, in Northfield, Minn.

BUILDING A SAVINGS PLAN

As with any other savings goal, the earlier you can start putting away money for college, the better, thanks to the power of compounding returns. Say, for example, that you begin stashing $200 a month in an investment account that provides an average 7% annual return when your child is a newborn. In 18 years, you'll have about $84,000 in the account. If you wait until the child turns 10 to start saving the same amount per month, you'll have about $25,000 when he or she is 18.

Determining how much to save is a multifaceted calculation, involving how much you expect college to cost for your kids, what portion of the expenses you want to cover out of your own pocket and the amount you can afford to set aside. With a long time horizon, you can't predict exactly how much college will cost by the time your child gets to school, and your child may pick a different path than you anticipate—say, preferring a private college instead of a public one or opting for a trade school instead of a four-year institution.

But you can work up a rough estimate so that you'll have a number to work toward. You may, for example, settle on the type of college you think your child is most likely to attend—say, a four-year, in-state public institution or a specific school in another state—as a basis. At https://finaid.org/calculators/costprojector, you can enter variables including current college costs and expected tuition inflation rates to get a projection of what college will cost in the future.

Assuming the previously mentioned $27,940 estimated budget for an in-state, four-year public university in 2022–23, a 5% tuition inflation rate and four years of expected attendance, the calculator estimates a $67,241 cost for freshman year in 18 years and a $289,817 total cost for four years of school. For a more tailored estimate of what you might actually pay, check out the calculator at www.savingforcollege.com/calculators/college-savings-calculator, which allows you to add your household income to get an idea of how much your child might receive in scholarships and grants.

Once you have an idea of what the total cost of college may be, you can decide how much of it you're aiming to cover with savings. A common guideline is to pay one-third of the expenses with savings, one-third with current income and financial aid while your student is in school, and one-third with student loans, says

CHRISTOPHER PEIRCE, COLBY-SAWYER COLLEGE

Mark Kantrowitz, an expert on saving and paying for college and author of several books on higher education.

If you have room in your budget, you may choose to pay for a greater portion of your child's college expenses up front. To cover the average cost of four years at an in-state public college, you'll need to save about $350 a month for 18 years in an account that provides tax-free growth, says Ann Garcia, a certified financial planner and author of *How to Pay for College*. But even families who have the means to pay all or most college expenses may decide to cover only a certain percentage so that the kids will have an incentive to invest in their own education, using some combination of scholarships and aid, part-time work (before and during college), and loans.

The balancing act. Your retirement savings should be on track before you focus on saving for college. "If you have minimal retirement savings, you have few options in retirement other than cutting back your lifestyle. If you have little college savings, your child still has options—from loans, financial aid and scholarships to picking a less-expensive school," says Kevin Shuller, a certified financial planner and founder of Cedar Peak Wealth Advisors, in Denver. If you have struggled with the weight of your own student debt, you may be eager to clear an easier path for your kids, but you'll place a burden on them later if they end up financially supporting you because you inadequately funded your retirement.

Generally, financial advisers recommend that you save at least 10% of your income for retirement. "My rule of thumb is if you're not maxing out retirement savings, then you should not contribute more than 10% of what you're contributing to retirement to college," says Garcia. "If you want more college savings, balance it with more retirement savings. Once you're maxing out retirement, then you have room to grow your college savings."

THE LOWDOWN ON 529s

For many families, a 529 college-savings plan is the prime place to stash money for college. As with a Roth IRA, contributions to a 529 are made after taxes have been taken out of your income. But money in a 529 grows tax-deferred, and you can withdraw it tax-free for qualified higher-education expenses, including tuition and fees, room and board, books and supplies, and computers and internet access.

Nearly all states have a 529 college-savings plan, and if your state offers a tax deduction or credit on contributions for investing in its plan, that's generally the best way to save. If your state doesn't offer a tax break—or if it's among the handful that offer a tax break no matter which state plan you choose—you may want to shop around to see whether a competing state's plan offers lower fees or a better mix of investment options.

At www.savingforcollege.com, you can find tools to compare state plans based on fees, investment options and other criteria. The site also reviews and rates 529 plans on such features; recently, New Mexico's Education Plan, Indiana's CollegeChoice 529, Ohio's CollegeAdvantage program and the Nebraska Educational Savings Plan Trust were among top-ranking plans. As you sift through the options, keep in mind that broker-sold plans may come with higher fees than those offered directly by the states.

Typically, you can choose among age-based investment portfolios that dedicate a high portion of funds to more risky, high-reward stock investments when your child is young and automatically shift to a greater allocation of conservative, fixed-income investments as college nears. Alternatively, you may be able to select a static portfolio that focuses on a certain objective, such as aggressive growth.

The K-12 tuition option. Thanks to a rule change a few years ago, in most states you can also use 529 money tax- and penalty-free to pay for up to $10,000 per year in school tuition for kids in kindergarten through grade 12. Tia Brown, 54, is taking advantage of the provision to help pay for private military school for her son, Parker, 14. Tia expects to withdraw the full $10,000 each year that Parker is at Fishburne Military School, in Waynesboro, Va., where he's wrapping up his freshman year.

Tia's mother began contributing to a plan through the Virginia529 program for Parker when he was a baby, and recently, the balance sat at nearly

TIA BROWN IS USING SAVINGS FROM A 529 PLAN TO PAY TUITION AT A PRIVATE MILITARY SCHOOL FOR HER SON, PARKER.

MARTI COLES, FISHBURNE MILITARY SCHOOL

$100,000. “He loves it and it’s what he needs,” Tia says of Parker’s attendance at the military school. “This wouldn’t have been an option if it hadn’t been for my mom starting the 529.”

With Parker’s future college expenses in mind—he’s eyeing Virginia Tech, a state university—Tia plans to contribute at least enough to the account before college to replenish the amount withdrawn for military-school tuition. She recently downsized her home when she moved to be closer to Parker’s school, and she put some of the profits from the home sale into the 529. She anticipates that savings will cover the first two years of college, and she talks with Parker about how he may contribute to his education expenses, including maintaining a high grade point average to boost his chances of getting scholarships.

OTHER PLACES TO SAVE

Although a 529 college-savings plan is often the preferred account for college savings, you may be interested in certain benefits that come with other savings options.

Taxable brokerage account. For clients who are concerned that they will save too much in a 529 plan and face a penalty for nonqualified withdrawals, some financial planners recommend splitting savings between a 529 and a taxable brokerage account. A taxable account doesn’t provide the tax benefits that specialized accounts such as 529s offer, but it allows your savings to benefit from market growth, and you can withdraw funds from it for any reason without penalty. Taylor Venanzi, a CFP and founder of Activate Wealth, in Philadelphia, uses strategies such as tax-loss harvesting, investing in index funds and minimizing trades to help relieve the tax bite for clients who are saving for college in a brokerage account.

Prepaid tuition plan. A 529 prepaid tuition plan allows you to purchase tuition for future schooling at today’s prices, protecting against tuition inflation. Prepaid plans most often cover tuition at in-state public schools, but they are open to new investors in fewer than 10 states. With the Private College 529 Plan (www.collegewell.com/private-college-529-plan), you can prepay tuition for nearly 300 private colleges and universities.

With a prepaid plan, you buy units or credits either as a lump sum or in installments, and the plan invests the money. When your child starts college, the funds are guaranteed to cover tuition at eligible schools—but you can’t use the money for room and board or other expenses. If your child goes to a college that’s not included in the prepaid plan, you can use the funds to pay tuition there, but it may not cover the full amount.

Coverdell education savings account. Overall, Coverdells have more limitations than 529 college-savings plans, but they provide greater flexibility to cover expenses for kindergarten through grade 12. Contributions grow tax-deferred, and withdrawals are tax-free for qualified education expenses—such as tuition, room and board, books, supplies, uniforms, and computers—from kindergarten through college. You have to use the funds by the time the beneficiary reaches age 30, unless he or she has special needs.

Until the beneficiary turns 18, you can save up to $2,000 per year in a Coverdell if your adjusted gross income is less than $95,000 for single taxpayers or $190,000 for those married filing jointly (the contribution maximum phases out as income rises).

Roth IRA. It’s not advisable to jeopardize your retirement savings for college expenses. But if you have a well-funded Roth IRA and sufficient retirement savings in other accounts, it can make sense to use a Roth to help pay for college.

You can withdraw contributions from a Roth anytime without paying taxes or penalties. Withdrawals of

SAVED TOO MUCH IN YOUR 529? YOU HAVE OPTIONS

Withdrawals from a 529 that aren’t used for qualifying education expenses generally incur income tax and a 10% penalty on investment earnings. That may worry families who want to avoid over-saving for a child who chooses not to go to college or whose education expenses are lower than expected.

Luckily, 529s come with a lot of flexibility. If your child gets a tax-free scholarship, you can withdraw up to the amount of the scholarship from the 529 without paying the 10% penalty, although you will owe tax on earnings. The penalty is also waived if the beneficiary dies or becomes disabled or attends a U.S. military academy.

You can also change the beneficiary of a 529 to a qualifying family member, such as the original beneficiary’s sibling, parent or spouse. And 529 funds don’t expire, so you can let them sit as long as you wish. Your child may be able to use the money for grad school or even his or her own children’s college expenses.

Recent law changes have introduced a couple of other possibilities, too. SECURE Act 2.0, passed in late 2022, allows for a tax- and penalty-free rollover of 529 funds to the beneficiary’s Roth IRA beginning in 2024. The 529 must have been open for at least 15 years, and you can roll over only as much as the IRA contribution maximum each year (in 2023, it’s $6,500 for those younger than 50), with a $35,000 lifetime limit.

The original SECURE Act, passed a few years earlier, enables owners of 529 plans to use funds to pay up to $10,000 of the beneficiary’s student loans. Account owners can also use up to $10,000 to repay student loans for each of the beneficiary’s siblings.

investment earnings are tax- and penalty-free if you've had the account at least five years and are age 59½ or older. Generally, if you don't meet those requirements, you pay income tax and a 10% penalty on earnings withdrawn. But if you take a distribution for qualified education-related expenses for your child or grandchild (or for yourself or your spouse), you won't pay the 10% penalty, although you will owe income tax on earnings.

For 2023, you can save as much as $6,500 in a Roth IRA, or $7,500 if you're 50 or older. Single taxpayers with modified adjusted gross income of $153,000 or more and joint filers with MAGI of $228,000 or more are ineligible to contribute to a Roth.

Custodial account. UGMAs (for the Uniform Gifts to Minors Act) and UTMAs (for the Uniform Transfers to Minors Act) are custodial investment accounts that you can use to save and manage assets for a minor without setting up a trust. When the child reaches the age of majority (18 or 21 in most states), he or she takes legal control of the account and can use the money for any purpose. In 2023, up to $1,250 of earnings may be exempt from federal income tax, and $1,250 of earnings that exceed the exempt amount may be taxed at the child's tax rate.

On the downside, a child's UGMA/UTMA account for which you are the custodian is considered the child's asset and affects college financial aid more adversely than parental assets.

NAVIGATING FINANCIAL AID

The information you provide on the FAFSA (Free Application for Federal Student Aid) determines your child's eligibility for college financial aid from the federal government, as well as from many states and colleges. For both parents and students, the FAFSA takes stock of income as well as assets including checking, savings and brokerage accounts; 529 college-savings plans and Coverdell accounts; and real estate other than your primary home. Life insurance, annuities and retirement plans, such as 401(k)s and IRAs, do not count as assets.

Currently, this information, along with your family size and the number of students in your family who will attend college during the year for which you're applying for aid, is used to calculate your Expected Family Contribution (EFC). Schools use the EFC to figure how much financial aid you're eligible to receive.

However, the FAFSA is undergoing an overhaul through the FAFSA Simplification Act, and starting with the 2024–25 academic year, the number of family members in college will no longer be included in the calculation. The new rule can cause families who have more than one child in college to receive less aid than they would have under the previous formula.

The new analysis will be known as the Student Aid Index (SAI) rather than the EFC. FAFSA simplification will also increase eligibility for federal Pell grants, which are awarded to low-income students, and reduce the maximum number of FAFSA questions to 36, rather than 108. Plus, distributions from 529s that are not owned by the parent or student will no longer count as student income. For more, see the box on page 48.

Maximizing aid. The FAFSA considers current assets but income from two years prior to the school year for which aid is being calculated, so "parents should start planning for college funding as early as their child's sophomore year in high school," says Kristy Jiayi

LASELL UNIVERSITY, IN AUBURNDALE, MASS., LOWERED THE COST OF TUITION AND ROOM AND BOARD BY ONE-THIRD.

COURTESY OF LASELL UNIVERSITY

Xu, a CFP in the San Francisco Bay Area and founder of Global Wealth Harbor. You may be able to make moves that lower your EFC and increase need-based aid.

To keep from inflating your income in the years the FAFSA evaluates it, consider postponing workplace bonuses and retirement-account distributions and avoiding realization of capital gains. (If you do sell investments with capital gains, try to offset them with losses.) If your income becomes significantly lower when you apply for aid than it was a couple years before, you can appeal to the college's financial-aid office for an adjustment.

When it comes to assets, it helps to minimize the amount the child owns. Under the federal financial-aid formula, up to 5.64% of parental assets (including 529 plans) are counted toward the EFC. Student assets, such as custodial accounts, are counted at a rate of 20%. The CSS Profile, which about 200 colleges and universities require families to fill out to receive non-government aid, assesses assets at a rate of up to 5% for parents and 25% for students. To reduce your reportable assets, you could increase contributions to retirement accounts, pay down unsecured debt with cash from bank accounts or other reportable accounts, or time a large purchase to decrease funds in reportable accounts.

Although applying such strategies can be worthwhile, "college choice has a bigger effect on how much financial aid a student gets than what parents do to manage their EFC on the FAFSA," says Garcia. Even so, she says, "families with need should plan for the FAFSA early in their high school years and, more importantly, apply to colleges that meet financial need."

The FAFSA becomes available each October 1 prior to the academic year for which aid is being granted (the CSS Profile opens on the same date). Apply as early as possible—some programs award aid on a first-come, first-served basis, and federal, state and college submission deadlines vary.

INTERVIEW

As Birth Rates Decline, Students Get a Leg Up

Decreasing enrollments pose challenges for colleges, but students may gain leverage as schools compete for them.

COURTESY OF CARLETON COLLEGE

Nathan Grawe is a professor of economics at Carleton College, in Northfield, Minn., and author of Demographics and the Demand for Higher Education *and* The Agile College.

What demographic shifts are occurring in the U.S. population? In a longstanding trend, we've seen a reshaping of our population's composition. Geographically, we see young families moving out of the Northeast, and to some degree off of the West Coast, and moving toward the South and South-Central U.S. We're also seeing differences in fertility across races and ethnicity groups, and the share of the population that is non-Hispanic white has been declining. For colleges and universities, this has been proceeding at a faster clip than in the population at large because younger generations are more diverse.

More recently, a decline in fertility that seemed to coincide with the Great Recession started in 2008, and it has persisted more or less ever since. We've seen a decline in total births by more than 15%.

How are these changes affecting colleges and universities? Nationally, we won't see the impacts of the fertility decline directly until 2025. But the Northeast quadrant of the country—including New England and the Rust Belt—was experiencing low fertility even before 2008. Closures and mergers among institutions have disproportionately occurred in that region. Institutions that remain open often report that they are struggling with declining enrollments, and they were doing so long before the pandemic. So we're starting to see in one geographic region some stresses that result from declining numbers of young people at the same time that the rest of the country is concerned about what might be on the horizon.

How are institutions responding? We're seeing more attention on retention. If institutions lean in to student success and persistence, enrollments actually could go up despite the fact that we have fewer students coming through the front door.

Expanding the footprint of higher education is another approach. For example, Drake University, in Des Moines, Iowa, has added a two-year associate's degree program. Drake identified a student group in its community that wasn't being well served.

In an example of creative thinking about financial aid, Queens University of Charlotte, in Charlotte, N.C., has partnered with some local employers. In essence, the employers are paying for the educations of local undergraduate students and providing externships along the way, with the hope that they will be able to hire these students when they graduate. Employers are going to be starved for talent as the number of young people declines, so there might be more creative partnerships between employers and higher ed.

What are the other potential advantages for students? In general, students are going to be a scarce commodity in the next few decades. Students may have a little bit more leverage in conversations with institutions about what they expect the institution to provide. We may see institutions nudged to being more student-centered, whether that's in advising, in teaching or in the financial-aid office, as institutions become more aware that they need students more than students need the institutions, at least relative to where we were 15 years ago.

Can students make moves to maximize financial aid as colleges compete for them? As we move into a more competitive environment, students who are interested in local institutions may find that by applying to more institutions, they'll get more financial aid offers, and some of those aid offers may differ significantly. The potential return of submitting one or two more applications becomes greater.

Merit scholarships can help cover the gaps in college expenses not filled by need-based aid. The guidance counselor's office at your child's high school should have information on local scholarships, and you can search websites such as Cappex.com, CareerOneStop.org, Fastweb.com and Scholarships.com.

UNDERSTANDING LOANS

Student loans come in two primary flavors: federal and private. By nearly every measure, federal student loans are the best choice. Undergraduate loans don't require a credit check or co-signer, and they come with various repayment options. You can use a plan that ensures your loans are paid off within 10 years, for example, or eligible borrowers can use income-driven plans designed to keep payments affordable.

The first step to obtaining federal loans is filling out the FAFSA. Direct subsidized loans are available to students who have financial need, and the Department of Education pays the interest while you're in school at least half-time as well as the first six months after you leave school. Direct unsubsidized loans don't require financial need, but you are responsible for interest during all periods. Dependent undergraduate students can generally borrow up to $5,500 to $7,500 per year in direct subsidized and unsubsidized loans, depending on their year in school, with a $31,000 total limit.

Parent PLUS and private loans. If savings, financial aid and student-held federal loans aren't enough to cover all college expenses, students and parents may cast an eye toward other loan types. Direct PLUS federal loans are available to parents, but they operate differently than other federal loans. Parents who qualify (an adverse credit history could render you ineligible for a loan) may be able to borrow as much as the cost of attendance at their child's school, minus financial assistance the child receives.

That can open the door for parents to borrow more than comfortably fits into their budget. Like other federal loans, PLUS loans have a fixed rate, but it runs higher; for PLUS loans disbursed from July 1, 2022, through June 2023, the rate is 7.54%, compared with 4.99% for undergraduate loans.

Private loans, which are from banks or other financial companies, lack the safety net that federal student loans provide—a point brought into sharp relief throughout the pandemic, during which the government has suspended interest and payments on federal student loans for more than three years. (Payments will likely resume at some point this summer, depending on the timing of a Supreme Court decision.) Some private lenders offer forbearance for borrowers experiencing hardship, but the payment suspension may last only a few months, and interest may continue to accrue.

Private loans often come with a variable interest rate that rises and falls as the Federal Reserve adjusts short-term rates. That can cause pain when interest rates are rising, as they have been since early 2022. Recently, private loan rates averaged from a little less than 4% to almost 15%, according to Bankrate. A borrower must pass a credit check to get a private loan, and you'll need a high credit score to get the best rates. Students who want to take out private loans usually need a co-signer, and parents who co-sign should understand that they are equally liable for the debt if the borrower defaults.

Keeping student debt manageable. Limiting total borrowing to the federal loan program can help students avoid taking on too much debt. Another common guideline is to borrow no more than what the student expects to earn from his or her first year's salary after college. With the College Scorecard, at https://collegescorecard.ed.gov, you can look up colleges and universities to see median earnings for students who participated in your field of study. The tool shows average annual costs to attend various schools, too.

Ultimately, choosing a college that your family can afford plays a central role in keeping debt at a reasonable level. "If it looks like you might need to overborrow for your college of choice, consider going to school where you might not have to borrow for the first year or two, and then transfer into that school of choice," says Betsy Mayotte, president and founder of the Institute of Student Loan Advisors, a nonprofit organization that provides free advice to borrowers. ■

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HELPING GRANDKIDS MAY GET EASIER

The FAFSA Simplification Act is bringing several changes to the Free Application for Federal Student Aid, and one of them is attractive for grandparents who want to help their grandkids pay for college. Under the old rules, a 529 college-savings plan owned by a grandparent (or anyone else who is not the student or parent) is not counted as an asset on the FAFSA, but distributions from grandparent plans count as untaxable income for the student. Student income is assessed at a rate of up to 50% on the FAFSA, meaning that a 529 distribution of, say, $10,000 from a grandparent could reduce the student's aid award by as much as $5,000.

But as written under the new rules, which take effect with the FAFSA for the 2024–25 academic year, students don't have to report such cash support. "This means grandparent-owned 529s theoretically will no longer have an impact on aid eligibility, in which case they become a very favorable way of saving," says college-savings expert Mark Kantrowitz. He cautions that the U.S. Department of Education has yet to issue guidance on the rule and may offer a different interpretation.

MONEY SMART WOMEN | Janet Bodnar

How to Save Your Way to a Million

In my March "Money Smart Women," column, I offered young people tips for getting their spending under control. As promised, this month I'm going to give you savings strategies that will start you on the path to making a million dollars, one dollar at a time.

Step one: Set a savings goal and write it down. When you put something in writing that you're trying to accomplish, it serves as a constant reminder—much like a to-do list—and you're more likely to achieve it.

It's also important to make your goal as specific as possible. "Saving for the future" is commendable, but your motivation gets a boost when you're working toward something concrete. Start with something relatively small—say, a special outfit you have your eye on, or even a vacation.

Step two: Set up a system for getting there. For example, you might decide you're going to save a certain amount every pay period. (And you know that money will be available because you've followed the advice in my previous column on controlling your spending.)

Keep your eye on the prize—literally—by getting a big jar or other container and pasting on it a picture of your goal. Toss in your spare change or other money you save by passing up smaller purchases. It's an immediate reward for your self-discipline, and you can see your money grow. I know of one person who accumulates several hundred dollars a year this way and uses the money to buy holiday gifts.

Pay yourself first. Build savings into your spending plan so you're not scrambling for money at the end of the month. And once you move on to bigger goals—a house, college for your kids, your own retirement—arrange for your employer or your bank to automatically take money right off the top of your paycheck and deposit it in a savings or investment account so that you never see it and it never has a chance to burn a hole in your pocket.

EVEN SMALL AMOUNTS SAVED WHEN YOU'RE YOUNG CAN GROW INTO GREAT GOBS OF CASH OVER TIME.

Take advantage of your retirement plan at work. That's the easiest way to save. If your employer gives you a match, that's free money that you don't have to come up with yourself. And the recently passed SECURE Act 2.0 expands perks for retirement savers (see "Navigate the New Rules," April).

Need more encouragement? See "Living in Retirement" in April for advice from readers on how they achieved a financially secure retirement.

Start small. You don't need to earn a hefty salary or put aside a big chunk of cash. Even $50 (or less) per paycheck is a start. The key is to get into the habit early, save regularly and continue to save throughout your life. When you get raises at work, you can increase your automatic savings. And you'll feel better when you're spending money because you know your savings are taken care of first.

Start soon. You will never be in a better position to save money than you are right now. That's because you have one huge asset going for you: time.

Consider the case of two women, Teri and Toni. At age 20, Teri begins saving $1,000 per year in a retirement account, and she continues to save $1,000 for the next 10 years. Then, with a new home and young children to care for, she leaves her job and stops saving.

Toni, on the other hand, waits until she's 30 to start saving, but she puts aside $1,000 a year for the next 40 years. Each of the young women earns the same return on her money. When they each retire at age 70, Teri will actually end up with more money because she started saving earlier. That's because of the power of compound interest, and it's the reason why even small amounts of cash saved now can grow into great gobs of money over the years.

Bottom line: Follow the four secrets to saving success—start soon, start small, keep it simple and save steadily—and you'll be well on your way to that million dollars. You don't need a winning lottery ticket, a get-rich-quick scheme or a rich uncle to help you out. Just stick with the basics and keep your eye on the ball and you'll reap the rewards. ■

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ILLUSTRATION BY PATRICK WELSH

CREDIT

A SALVO AGAINST CREDIT CARD FEES

FAILING TO PAY YOUR CREDIT card bill on time can result in a hefty fee. The amount varies by card, but under federal rules, issuers can currently charge up to $30 for the first late payment and up to $41 for subsequent late payments within six months. The maximum fee is subject to an annual adjustment for inflation, which reached 40-year highs in 2022. Americans rack up about $12 billion each year in credit card late fees, according to the Consumer Financial Protection Bureau.

RATE UPDATES

For the latest savings yields and loan rates, visit **kiplinger.com/links/rates**. For top rewards cards, go to **kiplinger.com/kpf/rewardscards.**

Recently, the CFPB proposed capping credit card late fees at $8, estimating that large card issuers generate about five times more in income from late fees than the collection costs they incur for late-payment violations. The CFPB also wants to limit late fees to no more than 25% of the minimum payment that the cardholder owes and eliminate the automatic inflation adjustment. The CFPB is gathering public comments on its proposals and has not issued a final rule.

Other consequences of paying late. Fees aren't the only potential negative outcome of missing a credit card payment. If you pay your bill 30 days late or more, the issuer will likely report it to the credit bureaus—Equifax, Experian and TransUnion. Payment history has more impact on your credit score than any other factor, and skipping payments can cause your score to sink significantly, especially if you previously had a clean record. Paying late can also trigger a penalty annual percentage rate, which replaces your card's standard APR and may run as high as 29.99%.

If you slip up and miss a payment, ask the issuer whether it will cut you a break, especially if it's your first offense. Nearly 90% of people who have attempted to get a credit card late fee waived were successful, according to a study from personal finance site WalletHub.

Setting up automatic payments of your credit card bill from your bank account can help you avoid missing payments. With most issuers, you can also sign up to receive automatic reminders of upcoming due dates by text message, e-mail or mobile-app notification.

LISA GERSTNER

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TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of Feb. 21	Minimum investment	Website
Gabelli U.S. Treasury MMF (GABXX)	4.49%	$10,000	gabelli.com
Putnam MMF (PDDXX)*	4.38	500	putnam.com
Fidelity MMF (SPRXX)	4.37	1	fidelity.com
T. Rowe Price Cash Reserves (TSCXX)*	4.35	2,500	troweprice.com

Tax-Free Money Market Mutual Funds	30-day yield as of Feb. 20	Tax eq. yield 24%/35% bracket	Minimum investment	Website
BNY Mellon Ntl Muni (MOMXX)	2.39%	3.14%/3.68%	$10,000	im.bnymellon.com
Morgan Stanley T-F Daily (DSTXX)*	2.35	3.09/3.62	5,000	morganstanley.com
American Cent T-F MMF (BNTXX)	2.30	3.03/3.54	2,500	americancentury.com
T. Rowe Price Tax-Ex (PTEXX)*	2.28	3.00/3.51	2,500	troweprice.com

Savings and Money Market Deposit Accounts	Annual yield as of March 2	Minimum amount	Website
UFB Direct (Calif.)†^	4.55%	$0	ufbdirect.com
CFG Bank (Md.)#	4.45	1,000	cfg.bank
BankPurely (N.Y.)†#	4.45	25,000	bankpurely.com
iGObanking (N.Y.)†#	4.45	25,000	igobanking.com

Certificates of Deposit 1-Year	Annual yield as of March 2	Minimum amount	Website
Merchants Bank of Indiana (Ind.)†	5.13%	$1,000	merchantsbankofindiana.com
Barclays (Del.)†	5.00	0	banking.barclaysus.com
Capital One (Va.)†§	5.00	0	capitalone.com
Synchrony (Utah)†‡¶	5.00	0	synchronybank.com

Certificates of Deposit 5-Year	Annual yield as of March 2	Minimum amount	Website
Seattle Bank (Wash.)	4.70%	$1,000	seattlebank.com
Lafayette FCU (Md.)&	4.63	500	lfcu.org
GTE Financial CU (Fla.)&	4.54	500	gtefinancial.org
CFG Bank (Md.)	4.50	500	cfg.bank

*Fund is waiving all or a portion of its expenses. †Internet only. ^UFB Direct offers both a savings account and money market deposit account with this yield. #Money market deposit account. §11-month maturity. ‡14-month maturity. ¶Bethpage FCU, CFG Bank and UmbrellaBank.com offer a similar yield. &Must be a member; to become a member, see website or call. SOURCES: Bankrate, DepositAccounts, Money Fund Report (iMoneyNet).

TOP CHECKING ACCOUNTS

Must meet activity requirements*

High-Yield Checking	Annual yield as of March 2	Balance range^	Website
Genisys Credit Union (Mich.)&	5.25%	$0–$7,500	genisyscu.org
Pelican State CU (La.)&	5.11	0–10,000	pelicanstatecu.com
Consumers Credit Union (Ill.)&	5.00#	0–10,000	myconsumers.org
Farmers Insurance FCU (Calif.)&	5.00	0–5,000	figfcu.org

*To earn the maximum rate, you must meet requirements such as using your debit card several times monthly and receiving electronic statements. ^Portion of the balance higher than the listed range earns a lower rate or no interest. &Must be a member; to become a member, see website. #Requires spending $1,000 or more monthly in CCU Visa credit card purchases. SOURCE: DepositAccounts.

YIELD BENCHMARKS	Yield	Month-ago	Year-ago
U.S. Series EE savings bonds	2.10%	2.10%	0.10%
U.S. Series I savings bonds	6.89	6.89	7.12
Six-month Treasury bills	5.18	4.76	0.68
Five-year Treasury notes	4.32	3.49	1.74
Ten-year Treasury notes	4.08	3.40	1.86

As of March 2, 2023.

- EE savings bonds purchased after May 1, 2005, have a fixed rate of interest.
- Bonds purchased before May 1, 1995, earn a minimum of 4% or a market-based rate from date of purchase.
- Bonds bought between May 1, 1995, and May 1, 2005, earn a market-based rate from date of purchase.

RETIREMENT

Guiding You to a Secure Retirement

Use the redesigned Social Security statement to maximize your benefits. BY SANDRA BLOCK

ILLUSTRATIONS BY VERÓNICA GRECH

Although most near-retirees know almost to the penny how much they've saved for retirement, many have only a vague idea of how much they'll receive when they file for Social Security benefits. That's not surprising, because numerous factors will affect how much you'll receive from Social Security, including when you file, your earnings record and even the type of job you had while you were working.

But even if you've accumulated a substantial nest egg, Social Security will probably represent a significant slice of your retirement income—about 33% for the average retiree, according to the Social Security Administration. Forty percent of retirees rely on Social Security for all of their retirement income, according to the National Institute for Retirement Security.

Estimating your monthly benefits will help you determine how much you'll need from your savings and other sources to cover your living expenses in retirement. You'll also be in a better position to decide whether you can afford to retire or should postpone it for a couple of years.

To get an estimate of your benefits, set up an online account at www.ssa.gov/myaccount. Once you've set up your account, you can get a copy of your Social Security statement, which is available to all workers who pay Social Security taxes on their wages. In 2021, Social Security redesigned the statement to make it more user-friendly. The redesigned statement is shorter than its predecessor—two pages instead of four—with more charts and graphs designed to give you a better picture of the benefits you and your family are eligible to receive each month.

Workers who are 60 and older and don't have an online account will receive an annual statement three months before their birthday. But even if you are eligible for paper statements, setting up an online account is a good idea. You'll have access to tools that will help you develop an effective claiming strategy. In addition, setting up an online account will prevent fraudsters from creating an account in your name in order to hijack your Social Security benefits.

USING THE NEW STATEMENT

Here's a look at how you can get the most out of the redesigned form (see the box on the right for an example of a hypothetical worker's statement).

Retirement benefits. This section will tell you whether you've earned enough credits to be eligible for Social Security benefits. You can earn a maximum of four credits per year, and most individuals need 40 credits to qualify. In 2023, you earn one Social Security and Medicare credit for every $1,640 of taxable earnings.

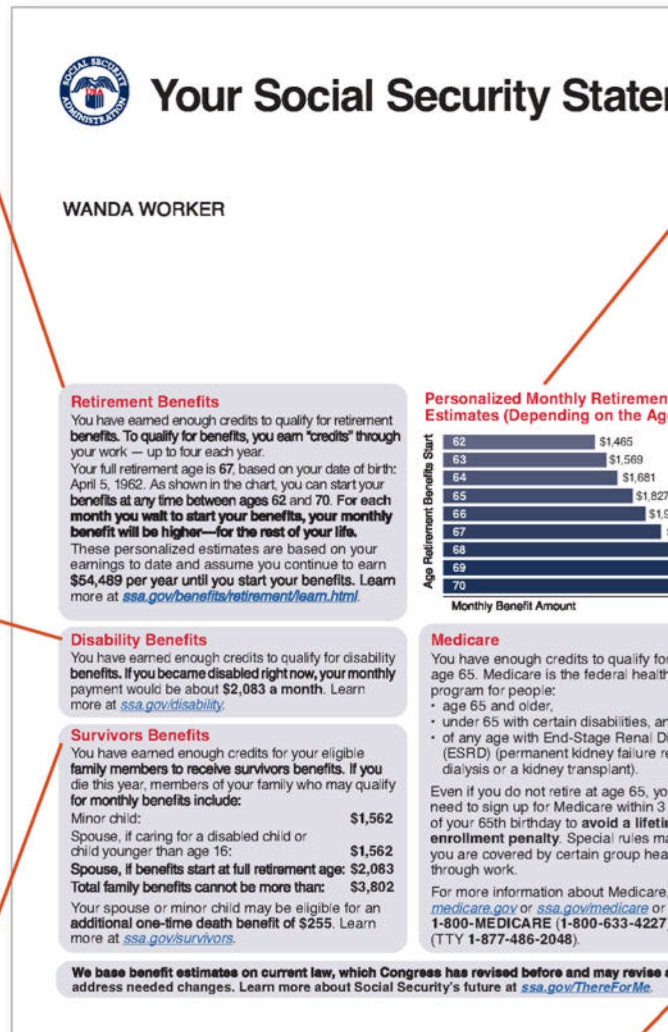
During your lifetime, you may earn more credits than the minimum number you need to be eligible for benefits. These extra credits do not increase the amount of benefits you'll receive. The average of your earnings over your working years, not the total number of credits you earn, determines the amount of your monthly payment when you file for benefits.

This section will also tell you your full retirement age (also known as normal retirement age), which is the age at which you'll be eligible for 100% of the benefits you've earned. Full retirement age is 66 for beneficiaries born between 1943 and 1954; it gradually increases to 67 for beneficiaries born in 1960 or later.

BLUEPRINT

Breaking Down Your Benefits

- Whether you've earned enough credits to apply for Social Security. Most people need 40 credits to qualify for benefits.
- Your full retirement age, which is based on your date of birth. In this case, Wanda Worker will be eligible for 100% of the benefits she's earned at age 67.
- The earnings basis for your benefits estimate, which is outlined below.



Your Social Security Stater

WANDA WORKER

Retirement Benefits

You have earned enough credits to qualify for retirement **benefits. To qualify for benefits, you earn "credits" through** your work — up to four each year.

Your full retirement age is **67**, based on your date of birth: April 5, 1962. As shown in the chart, you can start your **benefits at any time between ages 62** and **70**. **For each month you wait to start your benefits, your monthly benefit will be higher—for the rest of your life.**

These personalized estimates are based on your earnings to date and assume you continue to earn **$54,489 per year until you start your benefits.** Learn more at ssa.gov/benefits/retirement/learn.html.

Personalized Monthly Retiremen Estimates (Depending on the Ag

Disability Benefits

You have earned enough credits to qualify for disability **benefits. If you became disabled right now, your monthly** payment would be about **$2,083 a month**. Learn more at ssa.gov/disability.

Survivors Benefits

You have earned enough credits for your eligible **family members to receive survivors benefits. If you** die this year, members of your family who may qualify **for monthly benefits include:**

Minor child:	**$1,562**
Spouse, if caring for a disabled child or child younger than age 16:	**$1,562**
Spouse, if benefits start at full retirement age:	**$2,083**
Total family benefits cannot be more than:	**$3,802**

Your spouse or minor child may be eligible for an **additional one-time death benefit of $255**. Learn more at ssa.gov/survivors.

Medicare

You have enough credits to qualify fo age 65. Medicare is the federal health program for people:
- age 65 and older,
- under 65 with certain disabilities, ar
- of any age with End-Stage Renal Di (ESRD) (permanent kidney failure re dialysis or a kidney transplant).

Even if you do not retire at age 65, yo need to sign up for Medicare within 3 of your 65th birthday to **avoid a lifeti enrollment penalty**. Special rules ma you are covered by certain group hea through work.

For more information about Medicare, medicare.gov or ssa.gov/medicare or **1-800-MEDICARE** (**1-800-633-4227**) (TTY **1-877-486-2048**).

We base benefit estimates on current law, which Congress has revised before and may revise a address needed changes. Learn more about Social Security's future at ssa.gov/ThereForMe.

Your monthly benefit if you were to become disabled today. Social Security will pay benefits to you and your family if you worked long enough and paid Social Security taxes and meet the medical criteria to qualify for benefits.

Benefits that members of your family would receive if you died this year. As shown, the amount depends on the survivors' relationship to you and the age at which benefits are claimed.

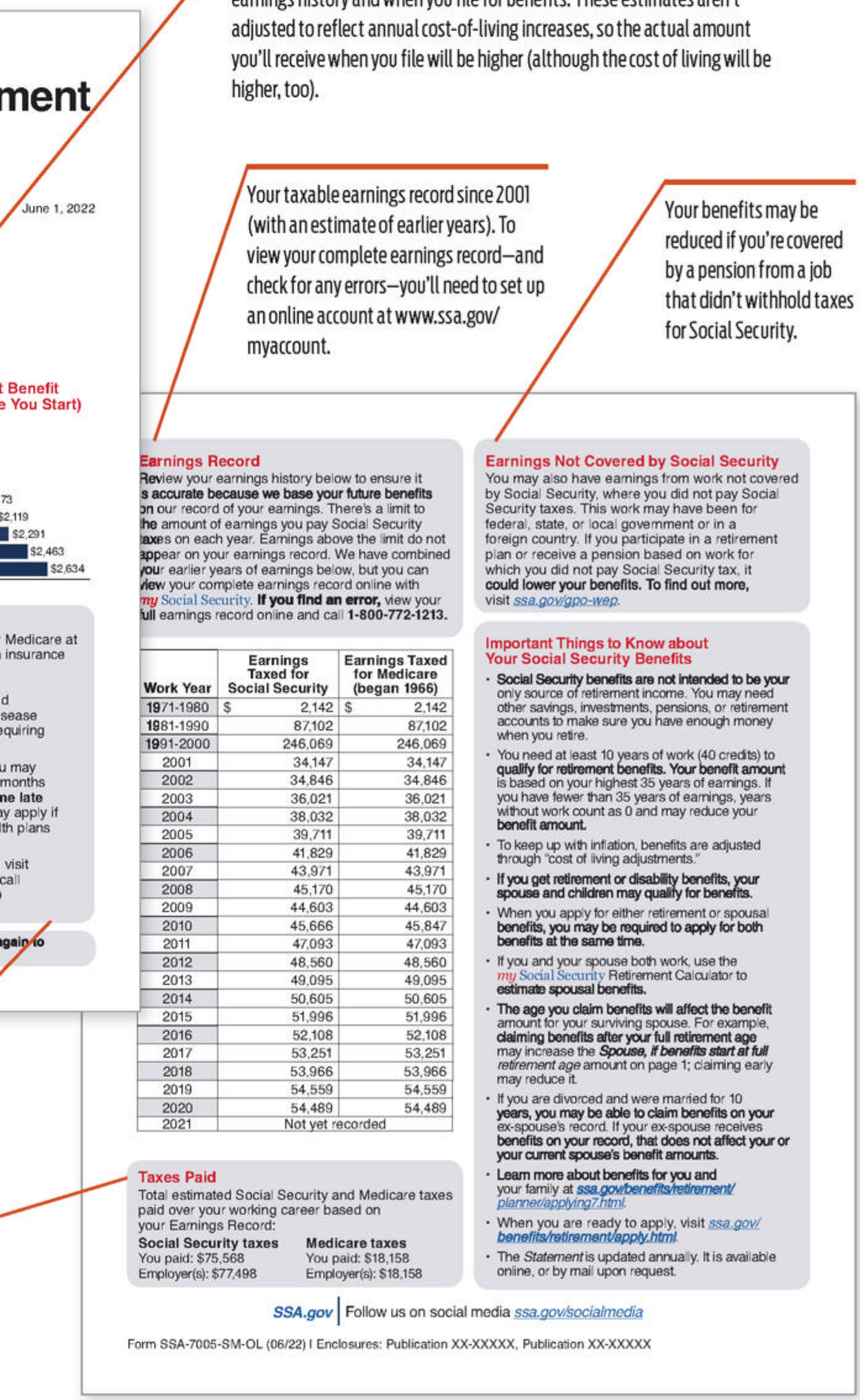
Explains whether you have enough credits to be eligible for Medicare at age 65. The Social Security credits you earn also count toward eligibility for Medicare when you reach age 65. You may be eligible for Medicare at an earlier age if you get disability benefits for 24 months or more.

The total amount you and your employer paid in Social Security and Medicare taxes during your working career.

An estimate of the monthly benefits you would receive, based on your earnings history and when you file for benefits. These estimates aren't adjusted to reflect annual cost-of-living increases, so the actual amount you'll receive when you file will be higher (although the cost of living will be higher, too).

Your taxable earnings record since 2001 (with an estimate of earlier years). To view your complete earnings record—and check for any errors—you'll need to set up an online account at www.ssa.gov/myaccount.

Your benefits may be reduced if you're covered by a pension from a job that didn't withhold taxes for Social Security.



Earnings Record

Review your earnings history below to ensure it is accurate because we base your future benefits on our record of your earnings. There's a limit to the amount of earnings you pay Social Security taxes on each year. Earnings above the limit do not appear on your earnings record. We have combined your earlier years of earnings below, but you can view your complete earnings record online with *my* Social Security. **If you find an error,** view your full earnings record online and call **1-800-772-1213.**

Work Year	Earnings Taxed for Social Security	Earnings Taxed for Medicare (began 1966)
1971-1980	$ 2,142	$ 2,142
1981-1990	87,102	87,102
1991-2000	246,069	246,069
2001	34,147	34,147
2002	34,846	34,846
2003	36,021	36,021
2004	38,032	38,032
2005	39,711	39,711
2006	41,829	41,829
2007	43,971	43,971
2008	45,170	45,170
2009	44,603	44,603
2010	45,666	45,847
2011	47,093	47,093
2012	48,560	48,560
2013	49,095	49,095
2014	50,605	50,605
2015	51,996	51,996
2016	52,108	52,108
2017	53,251	53,251
2018	53,966	53,966
2019	54,559	54,559
2020	54,489	54,489
2021	Not yet recorded	

Taxes Paid

Total estimated Social Security and Medicare taxes paid over your working career based on your Earnings Record:

Social Security taxes
You paid: $75,568
Employer(s): $77,498

Medicare taxes
You paid: $18,158
Employer(s): $18,158

Earnings Not Covered by Social Security

You may also have earnings from work not covered by Social Security, where you did not pay Social Security taxes. This work may have been for federal, state, or local government or in a foreign country. If you participate in a retirement plan or receive a pension based on work for which you did not pay Social Security tax, it **could lower your benefits. To find out more,** visit ssa.gov/gpo-wep.

Important Things to Know about Your Social Security Benefits

- **Social Security benefits are not intended to be your** only source of retirement income. You may need other savings, investments, pensions, or retirement accounts to make sure you have enough money when you retire.
- You need at least 10 years of work (40 credits) to **qualify for retirement benefits. Your benefit amount** is based on your highest 35 years of earnings. If you have fewer than 35 years of earnings, years without work count as 0 and may reduce your **benefit amount.**
- To keep up with inflation, benefits are adjusted through "cost of living adjustments."
- **If you get retirement or disability benefits, your spouse and children may qualify for benefits.**
- When you apply for either retirement or spousal **benefits, you may be required to apply for both benefits at the same time.**
- If you and your spouse both work, use the *my* Social Security Retirement Calculator to **estimate spousal benefits.**
- **The age you claim benefits will affect the benefit** amount for your surviving spouse. For example, **claiming benefits after your full retirement age** may increase the ***Spouse, if benefits start at full*** *retirement age* amount on page 1; claiming early may reduce it.
- If you are divorced and were married for 10 **years, you may be able to claim benefits on your** ex-spouse's record. If your ex-spouse receives **benefits on your record, that does not affect your or your current spouse's benefit amounts.**
- **Learn more about benefits for you and** your family at ssa.gov/benefits/retirement/planner/applying7.html.
- When you are ready to apply, visit ssa.gov/benefits/retirement/apply.html.
- The *Statement* is updated annually. It is available online, or by mail upon request.

SSA.gov | Follow us on social media ssa.gov/socialmedia

Form SSA-7005-SM-OL (06/22) | Enclosures: Publication XX-XXXXX, Publication XX-XXXXX

Disability and survivor benefits. These two sections will show you whether you've earned enough credits to qualify for disability benefits for yourself and survivor benefits for your family. To qualify for disability benefits, you must have worked in jobs covered by Social Security and have a medical condition that meets Social Security's strict definition of disability. The amount of the benefits shown on your statement is based on earnings on which you've paid Social Security taxes to date. In 2022, the average disability payment was $1,359 a month, with the maximum reaching about $3,300. However, applying for disability benefits is often a long process, and many applications are rejected.

This section also shows how much members of your family would receive in survivor benefits if you died this year. Note that the estimate for spousal benefits assumes the spouse will file for benefits at his or her full retirement age. A surviving spouse can file for benefits as early as age 60, but those benefits will be reduced.

Even if you're years from retirement, this section can help you take steps to protect your family in the event that you die or you're unable to work. With these estimates in hand, you can make informed decisions about how much disability and life insurance you need to supplement benefits, says Seth Mullikin, a certified financial planner in Charlotte, N.C.

Personalized monthly retirement benefits estimates. Financial planners say that this is the most useful part of the statement, particularly for near-retirees.

Although you're eligible to file for Social Security benefits at age 62, your lifetime benefits will be permanently reduced by up to 30%. If you wait until full retirement age to file, you'll receive 100% of the benefits you've earned. After that, you'll earn an 8% delayed-retirement credit for every year you delay between your full retirement age and age 70.

As shown in the illustration on page 54, the hypothetical worker's benefits would increase by 45% if she waits until 67 to file instead of filing at age 62. If she postpones claiming benefits until age 70, the amount would increase by nearly 80%.

Even if you don't want to wait until age 70 to file for benefits, the bar chart shows how much you can increase your benefits by filing a year or two after your full retirement age. That's an improvement over the previous version, financial planners say, which only showed the amount of your benefits at 62, full retirement age and 70.

"The retirement benefit bar chart is one of my favorite things about the redesigned statement," says Andy Baxley, a CFP with the Planning Center in Chicago. "It clearly and intuitively communicates a few things that weren't as clear in prior iterations of the statement, such as the dramatic increase in benefits enjoyed by those who choose to delay claiming."

As useful as this information is, there are some gaps. The estimates don't include annual cost-of-living adjustments, which will increase the amount of your benefits. In 2023, for example, beneficiaries received an 8.7% cost-of-living increase, reflecting the jump in inflation in 2022.

More significantly, the estimates are based on your current earnings record (which we'll discuss below) and assume you'll file for benefits as soon as you stop working. For example, if you plan to retire at 64 but postpone claiming benefits until age 67 (or later), your benefits will be smaller than the estimate on your statement, because the projection assumes you'll work right up until you file, says Jeremy Keil, a CFP in New Berlin, Wis., and host of the Retirement Revealed podcast and blog. The estimates also don't reflect a potential increase in your earnings, which could increase the amount of your benefits, he says.

You can obtain a more accurate estimate, based on projected earnings and the year you plan to file, by using Social Security's Plan for Retirement tool at www.ssa.gov/prepare/plan-retirement. Once you've created an online account, this tool will allow you to plug in the year you plan to file for benefits. If you plan to continue working, it allows you to plug in your projected earnings for future years, along with the year you plan to file, to get a more accurate estimate of the monthly payments you'll receive.

This exercise can be particularly useful for people who intend to fill in gaps in their work history. Any zero-earning years will be factored into the estimates provided on your Social Security statement, which will depress the size of the projected payments. But if you've rejoined the workforce, you can use the Plan for Retirement tool to estimate how much your future projected earnings will increase your benefits. On the flip side, if you've already earned enough to qualify for the maximum amount of benefits, the tool will show that working longer

LEARNING THE LEXICON

A Social Security Glossary

Primary insurance amount (PIA). The monthly payment you'll receive if you elect to begin receiving benefits at your **full retirement age.**

At this age, your benefits won't be reduced for early retirement or increased by **delayed-retirement credits.** The PIA is the sum of three separate percentages of portions of **average indexed monthly earnings,** which are based on the year in which you turn 62. For 2023, these portions are the first $1,115, the amount between $1,115 and $6,721, and the amount over $6,721. These dollar amounts are the "bend points" of the 2023 PIA formula.

Full retirement age (also normal retirement age). The age at which you're eligible for the PIA, which varies depending on the year you were born. FRA is 66 for beneficiaries born between 1943 and 1954; it gradually increases to 67 for beneficiaries born in 1960 or later.

Average indexed monthly earnings. This is calculated based on monthly earnings over your 35 highest-earning years, adjusted for inflation. If you don't have 35 years of earnings, a zero will be used in the calculation.

Social Security credits. Workers who pay Social Security taxes earn credits that count toward eligibility for benefits. You can earn a maximum of four credits each year. Most people need 40 credits to qualify for benefits, so it takes 10 years of work to qualify for Social Security. In 2023, you earn one Social Security and Medicare credit for every $1,640 of taxable earnings. You must earn $6,560 to get the maximum four credits for the year.

Delayed-retirement credits. If you decide not to claim benefits at full retirement age, your benefits will increase 8% a year until age 70.

Windfall elimination provision (WEP). If you have a pension from a job that didn't have Social Security taxes withheld, your benefits will be reduced by a discounted factor based on how many years you worked in that job (or jobs).

Government pension offset (GPO). If you receive a pension from a government job but did not pay Social Security taxes, Social Security will reduce your spousal or survivor benefits by two-thirds of the amount of your government pension.

FICA (Federal Insurance Contributions Act). The tax you and your employer pay toward Social Security and Medicare. If you're an employee, 6.2% of your gross wages go to the Social Security tax and 1.45% to Medicare. Your employer matches these percentages for a total FICA tax of 15.3%. Self-employed workers pay the entire 15.3% FICA tax.

won't increase your monthly payments (although working longer can benefit you in other respects, including increasing the amount of your savings).

The Plan for Retirement tool will also help you estimate your monthly payments if you file for benefits based on your spouse's earnings record, or vice versa. For that reason, couples need to review both of their Social Security statements to determine the claiming strategy that will result in the highest lifetime payout, Keil says. For example, if a couple has unequal earnings histories, it may make sense for the lower earner to file as early as age 62, even though that will result in a permanent reduction in benefits. The couple can use that spouse's benefits, along with other income, to allow the higher earner to postpone filing until age 70 and get the most out of delayed-retirement benefits. (For more, see "Yours, Mine and Ours: Social Security Benefits for Couples," Jan.)

Earnings record. This box shows your annual earnings that were taxed for Social Security, going back to 2001. The table provides combined earnings for earlier years; to get the actual amounts for every year you've worked, you need to set up an online account.

Ideally, you should review your earnings record once a year to make sure it's correct. Don't wait until you're close to retirement to perform this task. If your income is reported incorrectly when you're in your forties and you don't discover it until you're in your sixties, you're going to have a hard time tracking down the records you need to correct the error, says Frank Summers, a CFP in Charlotte.

If you discover that earnings have been omitted from your record, you'll need to provide Social Security with supporting documents, such as a Form W-2 from your employer, your tax return (contact the IRS for returns you've tossed) or a pay stub. You can contact Social Security online or by calling 800-772-1213. Social Security says correcting an earnings record takes time—it have to may reach out to your employer, for example—which is all the more reason to review your earnings regularly and report problems as soon as you find them.

Your Social Security benefits are based on your highest 35 years of earnings and the year you start receiving benefits. If you're earning a high income, working another year or two could replace lower-earning years and boost your monthly payments, says Catherine Valega, a CFP in Winchester, Mass. Replacing low- or zero-earning years is particularly valuable for women, who may have stepped out of the workforce to care for children or aging parents, she says.

Valega says she has also used data from the earnings record to help small-business owners increase their benefits. While business owners are usually encouraged to claim all of their legal deductions, those deductions will reduce earnings subject to Social Security taxes, which could reduce the individual's Social Security benefits, Valega says. Minimizing your taxable income may not matter if you've already racked up enough high-earning years to claim the maximum Social Security benefit. But if you're looking to replace some low-earning years with higher-earning years, the potential for higher Social Security benefits may outweigh the value of the tax break.

Medicare. This box will explain whether you have enough credits to qualify for Medicare coverage at age 65. The Social Security credits you earn also count toward eligibility for Medicare.

Earnings not covered by Social Security. If you're eligible for a pension based on earnings that weren't subject to Social Security taxes, your benefits will be reduced under what's known as the windfall elimination provision (WEP). Spousal and survivor benefits claimed by pensioners could also be reduced by what's known as the government pension offset (GPO).

These provisions primarily affect individuals who at some point in their careers worked for the local, state or federal government (although most federal government employees pay Social Security taxes on their earnings and aren't affected by the WEP).

If you're subject to the WEP, this section will show you the amount of earnings that won't count toward your 30 years of "substantial earnings," an amount that's adjusted annually. This information could help you prepare for the reduction in benefits. And in some cases, you can take steps to reduce or eliminate the WEP haircut.

Depending on how long you worked in a noncovered job, you may be able to reduce the WEP cut or eliminate it by working a few more years in a private-sector job that pays into Social Security. The more years you meet the substantial-earnings test, which is the amount of your earnings each year that were subject to Social Security taxes, the less the WEP reduces your benefits. If you have 30 or more years of substantial earnings, the WEP doesn't apply. In 2023, you needed to earn $29,700 or more to meet the test. For previous years, see the chart at www.ssa.gov/pubs/EN-05-10045.pdf.

The Social Security Administration provides an online calculator you can use to estimate how your benefits will be affected by the WEP at www.ssa.gov/benefits/retirement/planner/anyPiaWepjs04.html. ■

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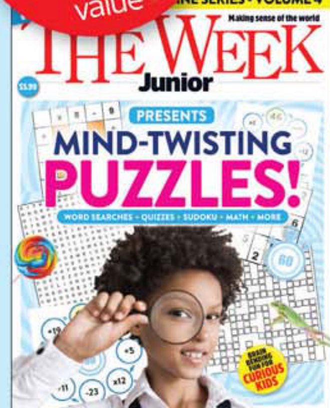

FOR AGES 8-14

THE BEST MAGAZINE FOR CURIOUS KIDS

PRACTICAL PORTFOLIO

What You Need to Know About Indexes

There are millions out there. But these seven cover much of the investing landscape. BY KIM CLARK

TUNE INTO THE NEWS AND YOU'LL GET updates on the weather, the latest Washington shenanigans, and the vicissitudes of the Dow Jones industrial average or the S&P 500. Originally launched as monitors for financial markets, indexes have evolved into essential tools for investors, allowing comparisons among broad asset classes, providing benchmarks against which to measure investment performance and serving as recipes for the portfolios of a vast number of indexed mutual and exchange-traded funds.

Today, there are an estimated 3 million indexes. And even among well-known and similar-sounding indexes, there are surprising differences—what constitutes a "small" company, for example, or whether Korea still qualifies as an "emerging" market. Such nuances can impact the returns of an index or the risk it reflects—important considerations if you're shopping for an index fund, evaluating a money manager or simply trying to understand a corner of the investing world.

You can get details about an index you're interested in from factsheets posted by index makers, though some providers try to keep some specifics confidential. Investors can find the name of their fund's benchmark or underlying index in the prospectus. You can't invest in an index itself, and even an index fund won't match the performance of its underlying index because of management fees and other costs. But prolonged underperformance relative to a benchmark in an active fund is a red flag, as is a passive fund's failure to track its index closely.

Here's a quick summary of some of the most common indexes. Most weight their members based on market value, calculated by multiplying the stock price by the number of outstanding shares. (Returns and other data are as of February 28.)

LARGE-COMPANY STOCKS

S&P 500. Launched in 1957, the S&P 500 index represents about 80% of the dollar value of the U.S. stock market. U.S.-based funds that replicate this index have accumulated roughly $2.2 trillion in assets, according to research firm Morningstar. Though it tracks 500 firms, the index contains 503 stocks because a few members, such as Google owner Alphabet, issue more than one share class. The stocks are chosen by a secret committee convened by the owner of the index, S&P Dow Jones Indices. Committee members select generally large—but not necessarily the largest—U.S.-based firms they believe best represent the overall market while trying to keep changes to a minimum. The result: quirks such as the inclusion of insurer Lincoln National, with a market value of about $5.4 billion, but not Airbnb, with a value of more than $77 billion.

Variations of the flagship index include the S&P 500 Growth index, which contains 228 members of the S&P 500 that have notched strong numbers on measures such as revenue growth. The S&P 500 Value index includes 407 stocks that rate well on valuation indicators, such as price-earnings ratios. Dozens of firms—such as Union Pacific, which has seen cumu-

INDEXES CAN HELP MAKE SENSE OF A SLICE OF THE MARKET.

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INDEXOLOGY

REPRESENTING MANY MARKETS

The indexes below often form the basis of portfolios or serve as yardsticks to measure the performance of major asset classes.

Name	Asset class	# of constituents	Largest component	Launched	1-year total return
Dow Jones industrial average	Large stocks	30	UnitedHealth Group	1896	–1.6%
S&P 500	Large stocks	503	Apple	1957	–7.7
Russell 2000	Small stocks	1,940	Iridium Communications	1984	–6.0
S&P SmallCap 600	Small stocks	601	Applied Industrial Tech.	1994	–3.5
MSCI EAFE	International stocks	795	Nestlé	1986	–3.1
FTSE Global All Cap ex U.S.	International stocks	7,618	Taiwan Semiconductor Mfg.	2003	–7.3
Bloomberg U.S. Aggregate Bond	Bonds	13,192	U.S. Treasuries	1986	–9.7

As of Februray 28. SOURCES: Index providers, Morningstar Direct.

lative sales growth of more than 25% over the past two years yet has a below-average P/E—appear on both lists.

Dow Jones industrial average. This granddaddy of market barometers was created by *Wall Street Journal* founder Charles Dow in 1896. It is now also managed by S&P Dow Jones Indices, where a committee handpicks 30 "blue chip" large companies. The DJIA still follows Mr. Dow's simple math and weights each member by stock price. So, UnitedHealth Group, with a stock price in the high $400s, accounts for nearly 10% of the index, even though its market value of about $444 billion is one-fifth that of Microsoft, which trades at about $250 a share and makes up 5% of the index. Although originally designed to track the economically sensitive industrial sector, with constituents in the health care and consumer staples sectors currently, the Dow's weighting in so-called cyclical stocks is roughly equivalent to that of the S&P 500.

SMALL-COMPANY STOCKS

Russell 2000. This oft-quoted small-cap market barometer is also the basis for about $91 billion in indexed fund investments, according to Morningstar. Provider FTSE Russell starts with an analysis of approximately 4,000 U.S. public companies. The 2000 consists of stocks, ranked by market value, that fall between 1,001st and 3,000th place. The largest member currently is Iridium Communications, with a market value of just over $7.8 billion. Its smallest, Agrify, which services the cannabis industry, is valued at approximately $8.4 million.

S&P SmallCap 600. This index (which has 601 stocks) is a more selective list of small companies. S&P will only add companies that have been profitable for the past year, for example. The selection committee tries to ensure that the index represents all sectors of the economy. Over the past five years, the S&P 600 returned 7.4% annualized; the broader Russell 2000, 5.6%.

INTERNATIONAL

FTSE Global All Cap ex U.S. The index tracks 98% of the investable market outside the U.S., including developed and emerging markets and companies of all sizes. Japanese companies are the biggest contributors, making up about 15% of the index, followed by firms in the United Kingdom, China and Canada (top stocks are Taiwan Semiconductor Manufacturing and Switzerland's Nestlé). The index underlies some $347 billion invested in U.S. index funds.

MSCI EAFE. The oldest international index tracks large- and midsize-company stocks in 21 developed countries in Europe and the Far East, as well as Australia and New Zealand. It excludes the U.S. and Canada. Companies from Japan, the United Kingdom and France make up about half the index. Top components include Nestlé and semiconductor equipment maker ASML. The EAFE has returned 2.6% annualized over the past five years, compared with 1.8% for the broader FTSE.

BONDS

Bloomberg U.S. Aggregate Bond. Familiarly known as the "Agg," this index tracks U.S. taxable, investment-grade bonds (those rated BBB and above), including Treasuries, corporate IOUs and asset-backed securities. It excludes junk bonds and those with variable rates, as well as issues of less than $300 million or with maturities of less than a year. Treasuries account for more than 40% of roughly 13,000 tracked securities. As a result, the Agg's current 4.8% yield is less than that of even highly rated corporate bonds. But it's up from 2.3% a year ago and three percentage points more than the dividend yield on the S&P 500.

There are millions of other indexes, ranging from those that tally up cryptocurrencies to one that tracks commodities that make up breakfast foods, such as coffee, orange juice and pork. Whichever you choose, make sure it is eggsactly right for you. ■

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MILLENNIAL MONEY | LISA GERSTNER

How Much I'm Saving in My 401(k)

Recently, I became a full-time employee of Kiplinger rather than working as a self-employed contractor. One perk of the switch is that I have access to employer-provided benefits, including a 401(k). Although I funded other retirement accounts during several years of self-employment, I didn't get an employer match on my contributions.

Stashing enough in an employer-sponsored retirement plan to get the full match is a no-brainer—it's free money toward your retirement. Employers often match contributions up to about 3% to 5% of an employee's salary. However, figuring out how much to contribute to a 401(k) beyond the match and how to divvy up funds within the account can be tricky.

The tax treatment of contributions and withdrawals is a top factor to consider. Most large employers' 401(k) plans provide a Roth savings option along with traditional, pretax contributions. Roth accounts are often considered especially valuable for young investors because although a Roth offers no up-front tax break, withdrawals are tax-free in retirement, when the investor may be in a higher tax bracket than in the early days of his or her career. With a traditional 401(k) account, contributions reduce your taxable income, but you pay income tax on withdrawals. Thanks to the recently passed SECURE Act 2.0, employers may allow employees to have matching contributions directed to a Roth 401(k). Previously, matching contributions were pretax only.

Notably, SECURE Act 2.0 is also eliminating required minimum distributions for holders of Roth 401(k)s in retirement (the change takes effect in 2024); you also avoid RMDs with a Roth IRA. But as the rules stand now, millennial investors will still have to take RMDs from traditional IRAs and 401(k)s starting at age 75.

STASHING ENOUGH IN AN EMPLOYER-SPONSORED RETIREMENT PLAN TO GET THE FULL MATCH IS A NO-BRAINER—IT'S FREE MONEY TOWARD YOUR RETIREMENT.

The benefits of a Roth are compelling to me, so I'm dedicating my entire contribution to the Roth side of my 401(k) for now. "The tax savings long-term on Roth money are exceptional," says Bridget Costello, a certified financial planner with Kayne Anderson Rudnick, a Los Angeles investment and wealth management firm.

Still, millennials whose earnings are increasing may consider making pretax contributions, too. Costello, a millennial who plans to retire in 30 years or so, hedges her bets by splitting her 401(k) contributions evenly between Roth and traditional options. She expects her income to be lower in retirement than it is now, but tax rates may be higher by then, she says.

How much to save. Financial advisers commonly recommend saving 10% to 15% of income for retirement, but I don't want to put all my eggs in the 401(k) basket. As a millennial in my late thirties, my financial situation is more complex than it was when I last opened a 401(k) more than 15 years ago. I now have a spouse who is contributing to his employer retirement plan, and we also have Roth IRAs and a taxable brokerage account. I've decided to dedicate about 10% of my income to my 401(k), leaving a little room in my budget to save in other accounts.

Spreading your savings among various accounts can provide flexibility down the road. With a Roth IRA, you can withdraw contributions anytime without paying income tax or penalties (withdrawals of investment earnings before age 59½, however, may incur tax and penalties). That may prove valuable if you retire early or need to withdraw funds in a pinch. With a traditional IRA or 401(k) plan, you usually pay a 10% penalty as well as income tax on early withdrawals.

You typically have more investment options, such as the ability to buy individual stocks, in an IRA or a brokerage account than in a 401(k). Taxable brokerage accounts don't have the tax benefits that retirement accounts offer, but you can withdraw from them anytime without penalty.

One other point to keep in mind: IRAs allow a $6,500 maximum contribution in 2023 for those younger than 50. You can stash more in a 401(k)—a total $22,500 in 2023 for those younger than 50. ■

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ILLUSTRATION BY PATRICK WELSH

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BASICS

How to Drive Down the Cost of an Auto Loan

For starters, stand firm on how much you can afford to spend.

BY EMMA PATCH

RISING INTEREST RATES combined with higher prices for cars have pushed up the cost of auto loans. U.S. consumers paid an average of $46,437 for a new vehicle in January, up 4.2% from a year earlier, according to JD Power. Meanwhile, auto loan rates are averaging 6.27% for a five-year new car loan, up from 3.96% a year earlier, according to Bankrate.com. If you were to borrow, say, $40,000 and finance it at 6.27% over five years, your monthly payment would be $778.

Fortunately, there are plenty of ways to lower the expense. If you're in the market for a car and plan to finance it, consider these strategies to keep your costs manageable.

Set a target for all car expenses. Before you step foot on a dealer's lot—and start discussing the terms of a car loan—figure out how much you can afford to spend on the car. "Everyone's situation is so incredibly different and nuanced, but it shouldn't be a significant portion of your income if you can help it," says Sam Gorelick, a certified financial planner with Brunch & Budget in New York City.

When assessing what you can afford—especially if you're buying a car for the first time—make sure to consider not just what you'll put down and the monthly loan payments, but other expenses as well, such as insurance and maintenance. The average annual cost of car insurance is $1,771 per year, according to Bankrate, although that will vary depending on where you live and the type of car you buy.

The amount you pay for maintenance will also vary depending on the car you choose, but the average that Americans spent on car maintenance in 2021, including all operating costs, was $9,666, according to AAA. (In general, used cars are more costly to maintain than new vehicles because new cars typically have a three-year warranty to cover repairs.) To pinpoint the true cost of ownership based on make and model, visit www.edmunds.com/car-maintenance/guide-page.html for Edmund's car maintenance calculator.

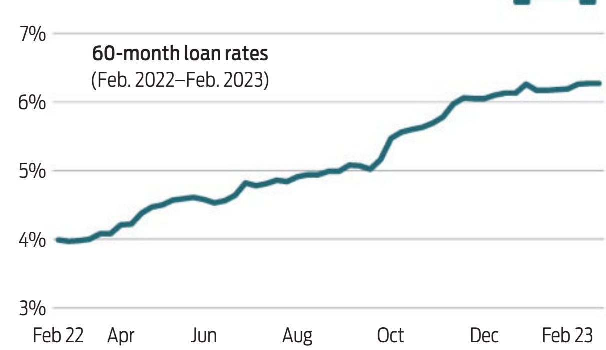
Tally up the distance in miles you expect to drive each month and divide that by the vehicle's gas mileage for a rough estimate of your monthly fuel consumption. Multiply that by the average cost of fuel in your area (currently $3.39 a gallon nationally, according to AAA, although Kiplinger expects it to rise to around $4 by late spring). If you're buying an electric vehicle, estimate your monthly electricity costs. An average EV owner will pay an additional $56 per month to charge an electric car at home, according to Kelley Blue Book, based on average household electricity costs of about 16 cents per kilowatt-hour. Or keep it simple and look up the average annual fuel costs by make and model at Fueleconomy.gov.

After calculating operating costs, you might choose

RATE SHOCK

SUDDEN ACCELERATION

Interest rates for new car loans have risen more than 50% over the past year.



SOURCE: Bankrate.com

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to reduce the amount you're willing to pay for a new car or choose a used car instead of a new one. "You can always buy less car," says Matt Degen, an editor for Kelley Blue Book. If you don't want to buy used, consider forgoing add-ons, such as heated seats or an expensive paint color. That could save you a lot of money over the life of the loan.

Get the best deal on a loan. With interest rates on the rise, finding the lowest rate you can is more important than ever. "You really want to shop around for your financing just as much as you're shopping for a car," Degen says. First, check your credit score, which will determine the rate you'll qualify for. If you have stellar credit (a FICO score of about 780 or higher), you may be able to get a rate as low as 4.75% for a new car or 5.99% for a used one. To compare and shop for auto loans for your score and location, try Bankrate's auto loan tool at www.bankrate.com/loans/auto-loans/rates. Although used cars are less expensive than new ones, you'll typically pay a higher interest rate on used-car loans. Consumers Credit Union recently offered auto loans for used cars starting at 5.24% for a loan term of up to 84 months. Carmakers aren't offering many zero-percent loans or cash back these days, but sometimes lenders linked to car manufacturers, such as Ford Motor Credit, GM Financial and Toyota Financial Services, will offer competitive rates. GM Financial recently offered financing options with APRs starting at 4.99% for new cars.

Consider going to a bank or a credit union to get pre-approved for a loan before going to the dealer. Dealerships offer financing, but those offers aren't always the best deals. The really great loan rates carmakers advertise are typically limited to certain vehicles and to people with great credit.

Plus, "when you go into a dealership armed with financing already lined up, that gives you more leverage to get a better deal," Degen says. You can turn down the dealer's offer, knowing you have backup financing ready. Financing a used car could be an exception: Although dealers won't offer the same incentives they provide for new car loans, they may offer lower interest rates than your bank or credit union for certified pre-owned (CPO) cars, Degen says. CPO cars have been thoroughly reconditioned and offer warranties similar to those you can get for a new car, although generally for only a year or two.

Don't forget the down payment. If you're trading in a car, the dealer will often apply the trade-in value as your down payment. If not, put down as much as you can afford, because that will lower your monthly payment. A larger down payment may also land you a better interest rate. Because the value of a car depreciates rapidly, try to avoid loans with terms of seven years or longer. You risk being "upside down" on the loan, which occurs when you owe more on the loan than the car is worth. If your vehicle is totaled, the amount you receive from your insurer may not be enough to pay off the balance of your loan.

While a long-term loan will lower your monthly payments, you may spend thousands of dollars more in interest than you would on one with a shorter term. Long-term loans often also have higher interest rates. While most buyers take out a five-year loan, go with a three-year loan if you can afford it, Gorelick says.

If you have substantial savings, and your credit isn't strong enough to lower the rate of your loan, consider paying cash for the car. Alternatively, if your credit is in bad shape and you need a car immediately, you could ask a family member or friend who has good credit to co-sign the loan—but keep in mind that if you're late on payments or default, it will hurt your credit and your co-signer's credit, too. ■

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REWARDS

HOW TO DEAL WITH TURBULENT TRAVEL

When your flight is canceled or there's no rental car for you, know the rules and your rights.

BY EMMA PATCH

On January 11, the Federal Aviation Administration, the agency in charge of maintaining safety in the nation's skies, halted all domestic departures—for the first time since September 11, 2001—because of a software problem. The 90-minute grounding caused delays for most airlines throughout the day, but the timing was particularly unfortunate for Southwest Airlines. Southwest and its customers were still sorting through the fallout from the carrier's decision to cancel more than 16,700 flights over the holidays, which affected the travel plans of more than a million people.

No one can control the weather, but Southwest and other airlines are under pressure for the way they handle flight delays and cancellations and communicate with passengers. Meanwhile, the FAA is grappling with how to keep the skies safe despite years of underinvestment in technology. When air travel soars, the potential for trouble spikes.

Forecasts are mixed about the outlook for 2023 travel. Demand will likely

be up from last year, though not as drastically as it increased in 2022 compared with 2021. But if you're faced with the kind of nightmare scenarios that many holiday travelers experienced, it's important to know your rights.

AIR TRAVEL

Flight delay or cancellation. Last December, when Southwest Airlines canceled the flight from Las Vegas to Denver that Denver residents Crystal Piedy and her fiancé were supposed to take, the airline offered to rebook them on another flight the next day. When that flight turned out to be full, they booked a flight the following day—but then that flight was canceled.

The next available flight was five days after their original reservation. To avoid missing more work, they reserved a rental car and planned to make the 10½- or 11-hour drive to Denver in one day, but after a two-hour wait at the rental car center set them back, they booked a hotel for about $115 so they wouldn't have to drive through a mountain pass in the dark during a snowstorm.

After they returned home, they filed a request for compensation for their travel disruption on the Southwest website. They received a refund for their rental car and hotel accommodations, but rather than a refund for their return airfare (about $400 altogether), the airline gave them 50,000 points for later use with Southwest.

You're entitled to a refund if the airline makes "a significant schedule change and/or significantly delays a flight," according to the Department of Transportation. But you are eligible for a refund for a flight only if you do not take that flight or another one on the same airline. Technically, Piedy and her fiancé were due a cash refund for their flights, per DOT guidelines, because they never got on their flight or another one.

"We aren't very keen to fly with them again after that," says Piedy. They plan to use their points for travel later this year anyway. The value of the points is about $750, according to a recent estimate by travel website The Points Guy.

When an airline cancels your flight altogether, you are due a prompt and full refund—including any baggage fees and service fees that went unused.

Sometimes the rules are open to interpretation, and in those scenarios, airlines are free to make their own policies about what they will do for you when your flight is delayed. The DOT's customer service dashboard (www.transportation.gov/airconsumer/airline-customer-service-dashboard) outlines the various commitments that airlines have made. All of the major U.S. airlines have pledged to rebook passengers on the same airline at no additional cost for "significant delays," according to the DOT. And some, including Alaska, American, Delta, JetBlue and United, will rebook you on a partner airline or another airline with which they have some kind of alliance at no additional cost. But what's considered a "significant delay" varies from airline to airline.

All major U.S. airlines will cover the cost of a meal when they delay a flight by three hours or more. However, when an airline considers the delay to be caused by something outside of its control—bad weather, for example—it might not offer anything at all. All major U.S. airlines except Frontier also offer complimentary hotel accommodations and ground transportation to and from a hotel for any passenger affected by an overnight delay.

But if you miss a connecting flight because a leg of your journey was delayed, such accommodations may not be guaranteed. If you're at risk of missing a connection due to a delay, ask to be rebooked. You may be able to change a fight in advance.

When an airline cancels your flight altogether, you are due a prompt and full refund—including any baggage fees and service fees that went unused. Airlines may initially offer a credit, voucher or points, but consider declining this offer if you would like to receive a refund. It may be more difficult

GETTY IMAGES (TOP), ALAMY (PREVIOUS PAGE) to get the refund once you accept another form of compensation.

Tarmac delays, meanwhile, are a separate beast. For flights departing from or arriving at a U.S. airport, airlines are required to begin to move the airplane to a location where passengers can safely get off within three hours of when the tarmac delay started for domestic flights and four hours for international flights. But during a tarmac delay, airlines must provide you with drinking water and a snack, such as a granola bar, no later than two hours after the start of the tarmac delay.

What to do. A few strategies can help you avoid delays and cancellations. Start by choosing a flight with a better chance of arriving on time, says Scott Keyes, founder of Scott's Cheap Flights. Morning and nonstop flights have significantly better odds of getting you to your destination on time, he says.

If your flight is canceled and the airline does not honor the requirement to issue a refund, or if you experience a significant delay and choose not to fly, you can file a claim at www.transportation.gov by filling out the Air Travel Service Complaint or Comment Form. Request your refund with the airline as soon as you decide not to rebook. If you do rebook and the airline places you in a lower class of service—your seat moves from first class to basic economy, for example—you are owed a refund for the difference in those fares.

Review the airline's customer service plan if you're unsure of its policies; airlines are required to adhere to the promises they make there (you'll find it on the airline's website).

Bumping. Because they commonly oversell flights to compensate for people who don't show up, airlines occasionally "bump" passengers before boarding if there aren't enough seats available. Before an airline forces a passenger to give up a seat due to overbooking, the airline must ask passengers on the flight if they are willing to give up their seat voluntarily in exchange for compensation—usually credit for a future flight.

If there aren't enough volunteers, each airline has its own method of deciding who gets bumped. Some will use check-in time as a metric; others will use how much a passenger paid for their ticket or frequent-flier status.

If an airline bumps you, you're entitled to compensation only if you've already checked into your flight and arrived at the departure gate on time *and* the airline cannot get you to your destination within one hour of your flight's original arrival time. For a delay of one to two hours on a domestic flight, the compensation should amount to two times the fare you paid (often up to $775). For delays of two hours or more, you should get four times the fare paid (often up to $1,550), according to the DOT. But for international flights, the delay has to be four hours or more in order to receive compensation worth four times the fare.

Baggage. Airlines must compensate you when they damage, delay or lose your baggage. The compensation largely depends on the airline's policy. What you're owed is spelled out in your airline's "contract of carriage."

If you check luggage, you should at least carry on basic necessities, such as toiletries and a change of clothes, says Chris Elliott, founder of Elliott Advocacy, a nonprofit consumer-advocacy organization that primarily addresses traveler complaints. Consider using a tracking device such as an AirTag to keep tabs on your bag's location, he says (AirTags cost about $29 each). Also, be sure to photograph the interior and exterior of all your checked luggage. Photographs can help baggage claim staff identify luggage and get it to you more quickly.

If your baggage is delayed, file a claim with the airline as soon as possible, and keep in close contact with them if you have to leave the airport before the bags are found. Although airlines are not allowed to set a fixed daily amount of reimbursement for costs that you incur while you wait for your bags, they are required to compensate passengers for reasonable expenses. But those expenses have to be verified with a receipt or other record.

When Ashley F. of Jersey City, N.J., flew from Newark to Berlin last summer on Lufthansa, she spent hours at

A BILL OF RIGHTS FOR AIRLINE PASSENGERS

In the wake of the Southwest meltdown and other airline disruptions this past winter, there has been renewed interest in establishing an official Bill of Rights for all airline passengers.

Two bills were recently introduced in the Senate to protect fliers: the Airline Passengers' Bill of Rights and the FAIR Fees Act.

The Bill of Rights would require airlines to pay at least $1,350 to passengers denied boarding because of an oversold flight, as well as requiring airlines to immediately refund bag fees for damaged or lost bags. The FAIR Fees Act would prohibit airlines from charging unreasonably high fees for checked bags, seat selection and ticket changes.

The Bill of RIghts would also establish consistent criteria for when a delay is significant enough—four hours or more—to warrant a refund, alternative transportation and meal compensation. And it intends to crack down on airlines using weather as an excuse for delays and cancellations that are actually the airlines' fault.

Airlines for America, the trade association for the country's leading passenger and cargo airlines, said in a statement that the proposals would drive up costs and reduce choices for consumers. And even if the bills are passed by the Senate, they would face tough odds in the Republican-controlled House.

the airport in Berlin waiting for her bags to catch up with her. She was told there was no tracking information available for her bags, but if she filled out a form, she'd have her belongings in a day or so. They never showed, and she returned home without her luggage.

Ashley sent an e-mail to the airline requesting compensation she was owed per the Montreal Convention, which governs maximum liability for airlines when they lose bags on an international flight. After an initial offer of $500 from Lufthansa, which Ashley refused because it didn't even begin to cover the value of her bag, belongings and what she spent to replace her lost belongings on vacation, she filed a complaint with the Department of Transportation and reached out to Elliott Advocacy for assistance. A couple of months after the complaint to the DOT, Lufthansa eventually issued compensation of about $1,800.

Different rules apply to lost or delayed luggage for domestic and international flights. For domestic flights, most airlines consider a bag officially lost between five and 14 days after the flight, but that varies by airline. The maximum liability is $3,800 per passenger. But airlines may require receipts or other proof that the items they lost were as valuable as you claim. They're also required to refund any baggage fees you paid to transport lost baggage. For international flights, the Montreal Convention states that airlines must pay up to $1,700 per passenger for lost baggage.

Rental car companies are not only running low on vehicles due to pandemic supply issues but also running low on staff.

Flying with children. Some airlines, such as United, have committed to waiving seat-selection fees for families with young children who want to sit together. Most other major airlines say they have policies in place to make it easier for families to sit together without incurring extra fees (see "Briefing," on page 16).

That said, "The likelihood that families are going to be separated is actually very low," says Keyes, of Scott's Cheap Flights, who often flies with his young children. There are a number of points in the process that make it likely you'll get seated together if you aren't already. If you book basic economy, you usually don't get to choose your seats, but even then, most of the time they'll seat you together, he says.

Flying with pets. Airlines have begun to more carefully verify that a pet is a service animal and will likely ask you a series of questions if you choose to bring one with you on your flight.

If you have a service dog and the proper documentation to support that, then the airline must accommodate you and your pet. Otherwise, the airline calls the shots. If your service animal is something other than a dog, for instance, they don't have to allow your animal on board. Also, if an animal is too large or disruptive, it can be denied boarding.

If your pet is not a service animal, you will probably have to pay a fee—typically $100 or more—to fly with it. And you have to let the airline know in advance; many airlines have a cap on how many pets can be on board and limits on weight and size. Generally, your pet carrier will have to fit under the seat in front of you and weigh less than 20 pounds.

LODGING

Hotels. At hotels, as with flights, overbooking is a common practice. "It's almost impossible not to do it because there's almost always a no-show," says Mehmet Erdem, associate professor at the Harrah College of Hospitality at the University of Nevada, Las Vegas. Hotels may "walk" you to another hotel, says Charles Leocha, president and cofounder of TravelersUnited and author of the book *Travel Rights*. In that situation, "you've got lots of negotiating power," he says. If you get walked, you should be placed in a similar room as the one you booked, for instance. But if you belong to a loyalty program with the hotel, adds Erdem, it might reduce the chance of it happening to you.

Beyond that situation, though, hotels must meet a few basic requirements. Some rights are outlined in the terms of your reservation, but each state also has laws to protect hotel guests. Basically, in the U.S., hotels have to ensure that your room is clean, relatively comfortable and secure. But they may not be liable for property you leave behind. If you have a dispute with a hotel, point to the terms of your reservation or the state law, if applicable. And if following up with the prop-

BOOKING WITH A THIRD PARTY

There are advantages to booking with a third-party travel agency or online aggregator. You may pay less, and you can more easily compare prices from competing airlines, hotels or other providers.

The companies are also supposed to be helpful if something goes wrong, says Chris Elliott, founder of Elliott Advocacy, a nonprofit consumer advocacy organization that primarily serves travelers. But "a lot of the time, they just get in the way," he says. For instance, if the airline is trying to communicate with you, it will often have to go through the travel agent or online travel agent, and sometimes you don't get those messages.

Also, if you request a refund, airlines are required to refund the money to the travel agency or travel aggregator instead of to you, "so sometimes the refund will get lost or delayed," says Elliott. You may have to be particularly persistent to get your refund.

erty doesn't work and it's part of a big hotel chain, it's a good idea to appeal to the corporate owner.

Short-term rentals. Airbnb, VRBO and similar short-term rental hosts are legally allowed to cancel your reservation. However, they shouldn't be able to change the price once the reservation has been booked. For instance, with Airbnb, a host can request a price change after you book, and if you accept the change, you'll pay the new rate. But if you don't, the host can cancel and give you a full refund.

Unlike hotel owners, hosts of short-term rentals often have no duty to maintain or repair their premises unless they know of a dangerous condition that is not obvious to the renter.

CRUISES

You have the right to a refund for a canceled cruise. However, the cruise line isn't legally obligated to offer you a refund directly. In that case, you have to initiate a refund request yourself with the Federal Maritime Commission, according to DOT guidance for cruise passengers. If you have a complaint, you can call the FMC at 202-523-5807. But first review passenger rights outlined in the cruise line's ticket contract.

If you book a cruise and need to cancel, first check the cancellation policy. "Generally speaking, you can cancel your cruise and receive everything back minus, let's say, your deposit, up to a couple of months before sailing," says Aaron Saunders, senior editor of Cruise Critic. "But after that, penalties start kicking in."

If you miss your cruise's embarkation time for a reason outside your control, such as a delayed flight, call your cruise line's emergency phone number. "In some cases, there may be the option to join the ship at the next port of call," says Saunders. Typically, you're going to be on the hook for the cost to get to that port, unless you have travel insurance that would reimburse the expense.

GETTY IMAGES

Consider flying to the port well in advance of your time of embarkation, says Saunders. "We've actually started recommending people fly two days in advance," he says.

RENTAL CARS

It's happening more often these days: You book a rental car, show up for your reservation and find there's no car available. Rental car companies are not only running low on vehicles because of pandemic supply issues but also running low on staff, says Jonathon Weinberg, founder of rental car booking company AutoSlash.com. If there's no one to clean cars, then there are no cars available, he says.

The best thing to do in this situation is to try to find another rental car with another company as quickly as possible. If you're at the airport, chances are there are several providers on site. And while the rental car companies typically won't say this to customers, they're on the hook to provide you with the vehicle at the price offered because "a reservation is technically a binding contract," says Weinberg. So if you are forced to go rent from another rental company at a higher cost, your original rental car company should reimburse you for the difference, he says. But you'll have to be persistent, and your request should be reasonable.

If you choose to dispute a credit card charge from a rental car company through the Fair Credit Billing Act, be aware of the risk. First, there's no guarantee the credit card company will side with you. And even if you win the dispute, rental car companies can send your invoice to collections, meaning a collections agency could come after you for the disputed charge. If that happens, rental car companies could put you on what they call the "do not rent" list, Weinberg says. That means if you make a reservation and show up at the rental car counter to retrieve the car, the counter agent could deny you a vehicle. ■

YOU CAN CONTACT THE AUTHOR AT EMMA_PATCH@KIPLINGER.COM.

PAYING IT FORWARD

A Helping Hand for Start-Ups

After a successful career as a corporate executive, he volunteers as a mentor for entrepreneurs.

PROFILE

WHO: Ricardo Casas, age 70

WHAT: Assistant District Director of SCORE for Southeast Florida, Puerto Rico and the U.S. Virgin Islands

WHERE: Miami

A lot of people have heard of SCORE but may not know exactly what it does. Our mission is to support the small-business community through mentoring and education. We have 10,000 volunteers. They are mostly mentors, but we also have people who present webinars and support in other functions. Half of the volunteers at SCORE are working professionals. SCORE has served over 11 million people since its start. Sessions average an hour, and last year our volunteers provided around 4.6 million hours of mentoring and education to clients.

How is it funded? We are a resource partner of the Small Business Administration, and as such, Congress provides funding for SCORE. We supplement that with different grants and relationships with community partners.

How did you get involved? I was very fortunate to have had a wonderful career with the ExxonMobil Corporation in global business planning, and on the retail side, opening and starting up different businesses. When I retired in 2015, I was looking for opportunities to use all the knowledge I had in a manageable way. I read about SCORE, a friend who was a mentor introduced me, and I then joined. I'm now a member of SCORE's National Hispanic Committee. We help a very large group of Hispanic businesses in the U.S., providing mentoring and resources in Spanish and other languages.

What's the process like for businesses that want help? All they have to do is go to SCORE .org and ask for a mentor. They choose whether they want to have sessions in person, via video or even via e-mail. SCORE will then assign them somebody based on their business needs. So if they want help with getting a loan, then SCORE will probably assign them somebody who has a background in commercial banking that can help with an application, or the entrepreneur will choose a mentor from a list of profiles. The mentoring lasts as long as the client needs the service. Sometimes clients need to expand their business, so they come back and ask for help in setting up a second location. In my case, I have clients that I've been seeing for five, six years.

What kinds of questions do you get most from small-business owners? They often have a great idea and ask how to get started and turn the idea into a business. That's really an area where SCORE mentors are helpful, because entrepreneurs many times have ideas that we have seen already or that are similar to ones we have experience with.

How did the pandemic affect business start-ups? There was a huge increase in the number of businesses in 2022, actually; it was one of the biggest years for start-ups in the past 15 or 20 years. And many businesses that we were coaching—and were successful in getting through the pandemic—are better off today than they were before. For many of my clients who have already started a business, we got back in contact during the pandemic. Since I was already familiar with their business, I could assist them to get through a number of issues in the pandemic.

What are the biggest challenges small businesses are up against now? Small businesses often struggle to understand their capital needs, meaning how much money they require to start and maintain cash flow. They also have to make sure they keep their products and services differentiated and relevant to the clients that they're trying to reach. And on the marketing side, they have to figure out how to reach those clients.

How do you motivate your clients? First of all, I reassure them that if they have a sound plan and they follow it, they will succeed. Starting a business takes a huge amount of time; it's something that many times is underestimated by entrepreneurs. But once they see that putting in time provides the results they want, it gets easier from there. It's really the entrepreneur driving their own process. **EMMA PATCH**

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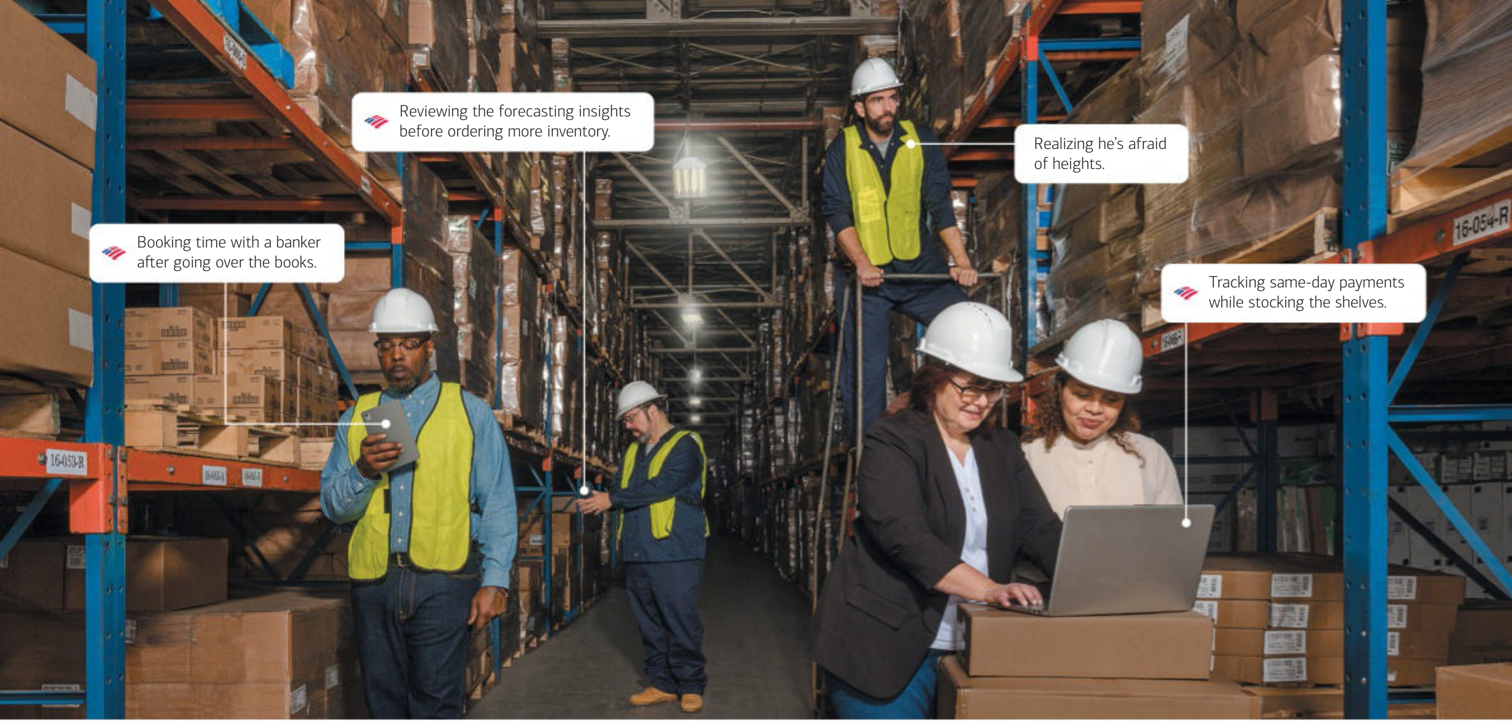

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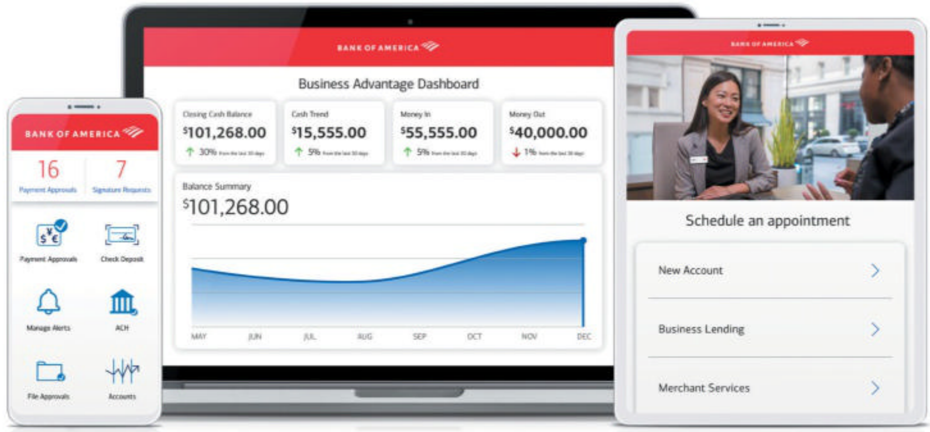

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