Kiplinger's
PERSONAL FINANCE

Earn 10% or More on Your Money

We scoured 9 income categories, from super safe to aggressive, to catch the top yields. p 20

JUNE 2023

CONTENTS

KIPLINGER'S PERSONAL FINANCE
FOUNDED 1947

VOL. 77 NO. 6

KEVIN SERNA

AHEAD

COVER STORY
INVESTING

MONEY

ON THE COVER: PHOTO ILLUSTRATION BY C. J. BURTON

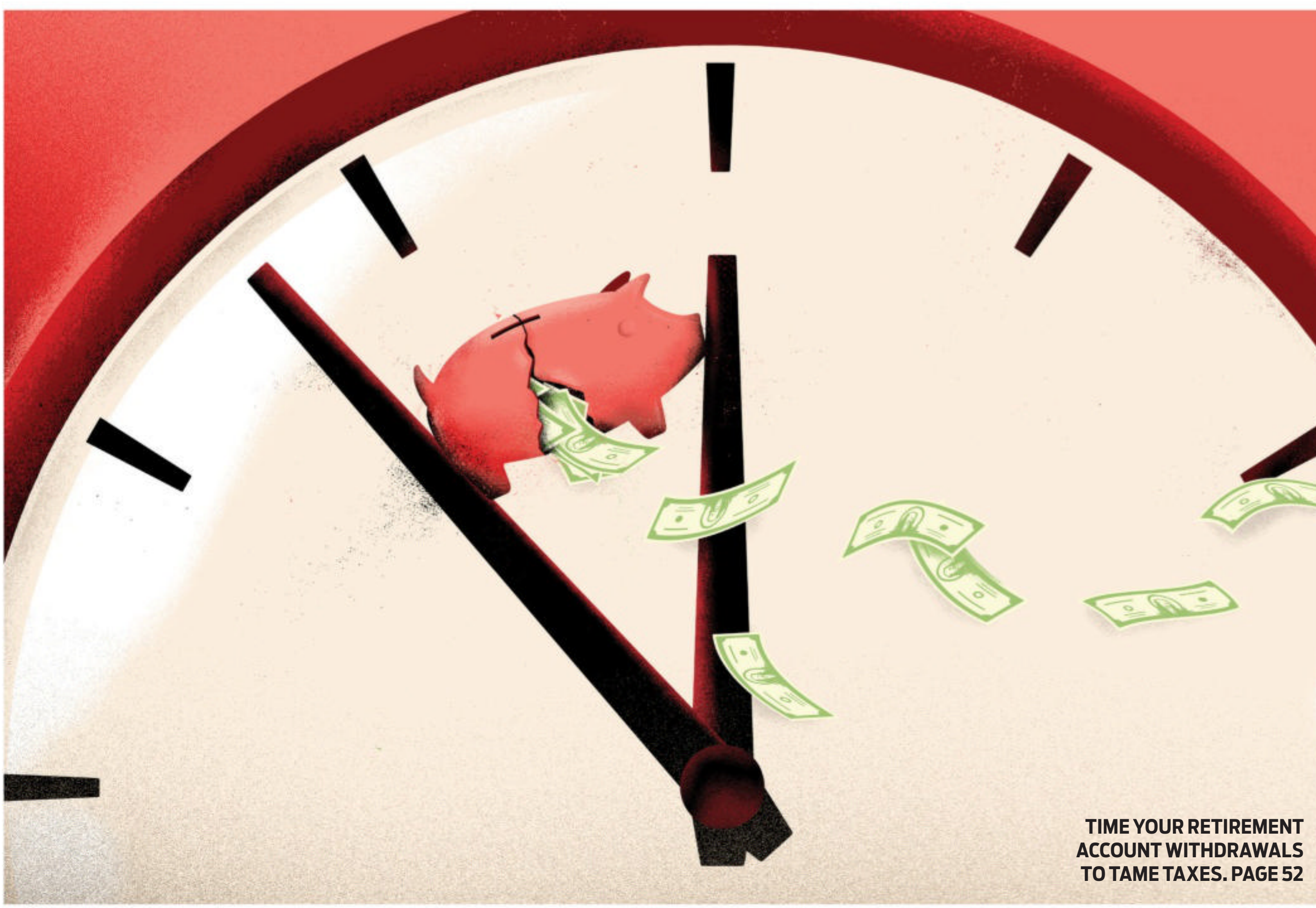
CONTENTS CONTINUED

RETIREMENT

FUNDAMENTALS

REWARDS

IN EVERY ISSUE



TIME YOUR RETIREMENT ACCOUNT WITHDRAWALS TO TAME TAXES. PAGE 52

SÉBASTIEN THIBAULT

GET MORE ADVICE FROM KIPLINGER

HOW TO REACH US: *Subscriptions.* For inquiries about ordering, billing or renewing a subscription, or to report address changes, please have your mailing label handy to reference your account number and visit us online at kiplinger.com/customer-service or call 800-544-0155, Monday through Friday between 7 A.M. and 9:30 P.M. Central Time, or Saturday between 8 A.M. and 5 P.M. Central Time. You can also write to Kiplinger's Personal Finance, P.O. Box 37234, Boone, IA 50037-0234, or send an e-mail to KPFservice@kiplinger.com. *Reprints.* PARS International Corp. (212-221-9595, ext. 237; e-mail, jennifer.eclipse@parsintl.com). *Content licensing.* E-mail licensing@kiplinger.com. *Mailing lists.* From time to time we make our subscriber mailing list available on a one-time basis to carefully screened companies whose products may be of interest to you. If you would rather not receive such solicitations, send your mailing label to P.O. Box 37234, Boone, IA 50037-0234 and instruct us to exclude your name.

Kiplinger.com

BIDEN WANTS A WEALTH TAX. SHOULD BILLIONAIRES PAY MORE?

With the proposed wealth tax in the Biden budget, debate over how much billionaires and millionaires should pay in taxes is heating up.

kiplinger.com/taxes/biden-billionaire-wealth-tax

STOCKS WITH THE HIGHEST DIVIDEND YIELDS IN THE S&P 500

Blindly buying stocks with the highest dividend yields can be dangerous, so experienced income investors do their research. Find out which industry is dominating the list of stocks with the highest dividend yields in the S&P 500.

kiplinger.com/kpf/sandp

BEST TRAVEL REWARDS CREDIT CARDS

Business road warriors and leisure travelers can use travel rewards credit cards to turn miles they log into perks—including more travel.

kiplinger.com/kpf/travel-rewards-cards

Kiplinger Today

Profit from the best of Kiplinger delivered to your e-mail inbox every weekday.

Sign up for our Kiplinger Today e-newsletter at **kiplinger.com/links/ktoday.**

FACEBOOK: KiplingerPersonalFinance
TWITTER: @Kiplinger
INSTAGRAM: @KiplingerFinance

CHRISTOPHER PENLER/SHUTTERSTOCK

Profit From Your Home

Instead of selling or getting a home equity loan or a reverse mortgage, maybe the best idea is to buy a home that is less than you can afford, live in it for a lifetime and enjoy the benefits of no mortgage and the security of owning your own home ("Make the Most of Your Biggest Asset," April). My wife and I bought a home in 1995 that was less than we could afford, paid off the mortgage in six years and have enjoyed the benefits that come with not owing a mortgage, including buying and paying for a second home, worldwide travel, and supporting many worthwhile causes.

J.H.B.
ORLANDO

Most folks are not selling their home, so the high prices are definitely not a "boon for homeowners." The real impact of higher home prices is a much bigger yearly property tax bill. Even downsizing is probably hard to justify if you have to get a mortgage on the new, smaller property, because your interest rate may be twice what it was. Going further into debt with a HELOC with the higher interest rates does not sound inviting to me.

BRUCE BUTTERFIELD
BROOMFIELD, COLO.

"How to Help Your Children Buy a Home" (April) was timely because my son was in the market for a new home. He was concerned about higher interest rates, so I decided to assist him by providing the mortgage funds. Your information on the National Family Mortgage program was extremely useful for helping my son with his purchase; the staff at National Family Mortgage were very helpful in guiding both me and my son through a successful settlement process.

ANTHONY TABASCO III
BEL AIR, MD.

ESG skeptics. Thank you for "Funds Aimed at ESG Skeptics" (April). The fact that politicians are actively going after the investment companies that invest in ESG companies is quite disturbing. This is America, which is theoretically supposed to support free-market capitalism. But politicians seem to be actively trying to take away those freedoms because they do not agree with how an investment company may invest. I understand why a magazine like *Kiplinger's* wants to stay out of politics, but sometimes it is important that readers (investors) know what is going on because political influences can have an enormous impact on our financial future.

DAVID GREENE
ANNAPOLIS, MD.

Foreign investments. The unique frictional costs of investing abroad would have made "Time to Explore Investing Abroad" (April) more complete. For example, in my Vanguard Brokerage account, I own LyondellBasell (symbol LYB) and GlaxoSmithKline (GSK). In December, my LYB dividend was reduced by 15% for "foreign tax withheld." Yet, on my Form 1099-Div, Vanguard reported no foreign tax paid, which Vanguard confirmed is correct treatment. For my GSK investment, last year Vanguard deducted $137 in "ADR custody fees." (I can't believe Jack Bogle, pioneer of low-cost investing, would have allowed this.)

MARK MISHLER
MORRISTOWN, N.J.

Truisms. Thank you for exposing several myths of conventional wisdom ("Practical Portfolio," April). I've had a 100% allocation to equities all my life, and I maintain that allocation now in retirement. In fact, that allocation is what enabled me to retire in my early fifties. I've never had a balanced portfolio to begin with, so "rebalancing" is out of the question. Now, if only we could dispose of the silly notion that volatility is risk!

ROB ADAMS
MATTHEWS, N.C.

Columnist portraits. I do have to say that I think the new line-drawing portraits are NOT very flattering to any of you! They remind me of graphic novels that the kids read! Maybe just a casual head photo would be better?

SUSAN FONTAINE
VIA E-MAIL

529 taxes. You say that in the past, if you withdrew 529 plan funds for non-educational expenses, you had to pay income taxes and a 10% penalty on the withdrawal ("Retirement: Navigate the New Rules," April). I believe the taxes and penalty apply only to the earnings portion of the withdrawal.

TODD DUNN
SPENCERPORT, N.Y.

Editor's note: Our reader is correct. We regret the error.

Corrections and clarifications: In "Practical Portfolio" (April), we said that if you trigger the wash-sale rule when harvesting a tax loss (by buying a substantially identical investment within 30 days before or after the sale) you'll lose the tax benefit altogether. It's more accurate to say the ability to claim the loss is deferred, says Philip Weiss, a Maryland-based CPA and CFA. Your tax basis of the replacement shares is adjusted higher by the amount of the disallowed loss, which reduces the gain (or increases the loss) if and when you sell that investment.

In "Briefing" (April), the price of J.M. Smucker should have been listed as $150.

CONTACT US

Reader Feedback may be edited for clarity and space, and initials will be used on request only if you include your name. Send to Kiplinger's Personal Finance, c/o Future US LLC, 130 West 42nd Street, 7th Floor, New York, NY 10036, or send an e-mail to feedback@kiplinger.com. Please include your name, address and daytime telephone number.

FROM THE EDITOR

Mark Solheim

It's Easier Being Green

In February 1990, this magazine published a cover story called "Investing in a Cleaner Environment." It was a two-part package: One article recommended investments in companies that cleaned up toxic waste, addressed water pollution and hauled away trash (Waste Management was one pick). The other was a shopping guide to products that are kinder to the environment (written by yours truly). The art director and I even cooked up a special pullout section, printed on recycled paper, that you could take with you to the store.

For my part, I had been buying recycled paper products, fertilizing our grass with the natural stuff, and recycling newspapers, bottles and cans. Washington, D.C., was still years away from collecting recyclables, so I had to store the bags and piles of newspapers in the garage, load them into our Ford Taurus station wagon and drive to a field a couple of miles from our home, where the city had installed igloo-type collection bins.

The year before we published our story, my first child was born. My wife and I used cloth diapers and bought fruits and vegetables from a bunch of hippies who ran an organic farm and drove to our neighborhood to sell their produce. I look back nostalgically at an idealistic, younger me, who believed that if we all did our part, we could turn back the tide of human impact on nature and improve the planet for our children and their children.

Three decades later, we're still struggling to solve the problems of plastic and other waste—only 9% of plastic gets recycled—plus water pollution from fertilizers and the side effects of pesticides on birds and bees. And now we face an existential threat from climate change.

THE INFLATION REDUCTION ACT PROVIDES GENEROUS TAX CREDITS FOR HOMEOWNERS WHO GO GREEN BY UPGRADING TO ENERGY-EFFICIENT SYSTEMS AND APPLIANCES.

Addressing climate change was one major motivation behind the far-reaching Inflation Reduction Act. The legislation provides generous tax credits and rebates for homeowners who go green by upgrading to energy-efficient systems and appliances. Our story on page 64, by regular contributor Dan Bortz, is a guide to the tax credits and rebates available under the new law, as well as how you can slash your utility bills. It's the latest in a series of pieces we have done over the years about making your home and your habits more energy efficient and, while you're at it, saving money.

Your cash isn't trash. Elsewhere in this issue, you'll find a plethora of advice on your cash. The cover story, starting on page 20, is our annual look at how to put your money to work earning top yields. The Federal Reserve's rate hikes have pushed up payouts on fixed-income investments, and now you can earn 5% without sacrificing safety; you can snag nearly 12% if you're willing to take some risk.

In "Topic A," on page 9, we review the recent bank troubles and tell you how to make sure your savings stay within the insurance limits set by the FDIC. On page 16, we offer a guide to money market mutual funds, and for bargain hunters, columnist James Glassman recommends bank stocks worth betting on (see page 36).

As I paged through our 1990 issue, a short item caught my eye: A new entity called the Resolution Trust Corp., charged with disposing of assets from failed savings & loans, had just released an inventory of properties for sale—including "foreclosed townhouses, empty office buildings and failed lake resorts."

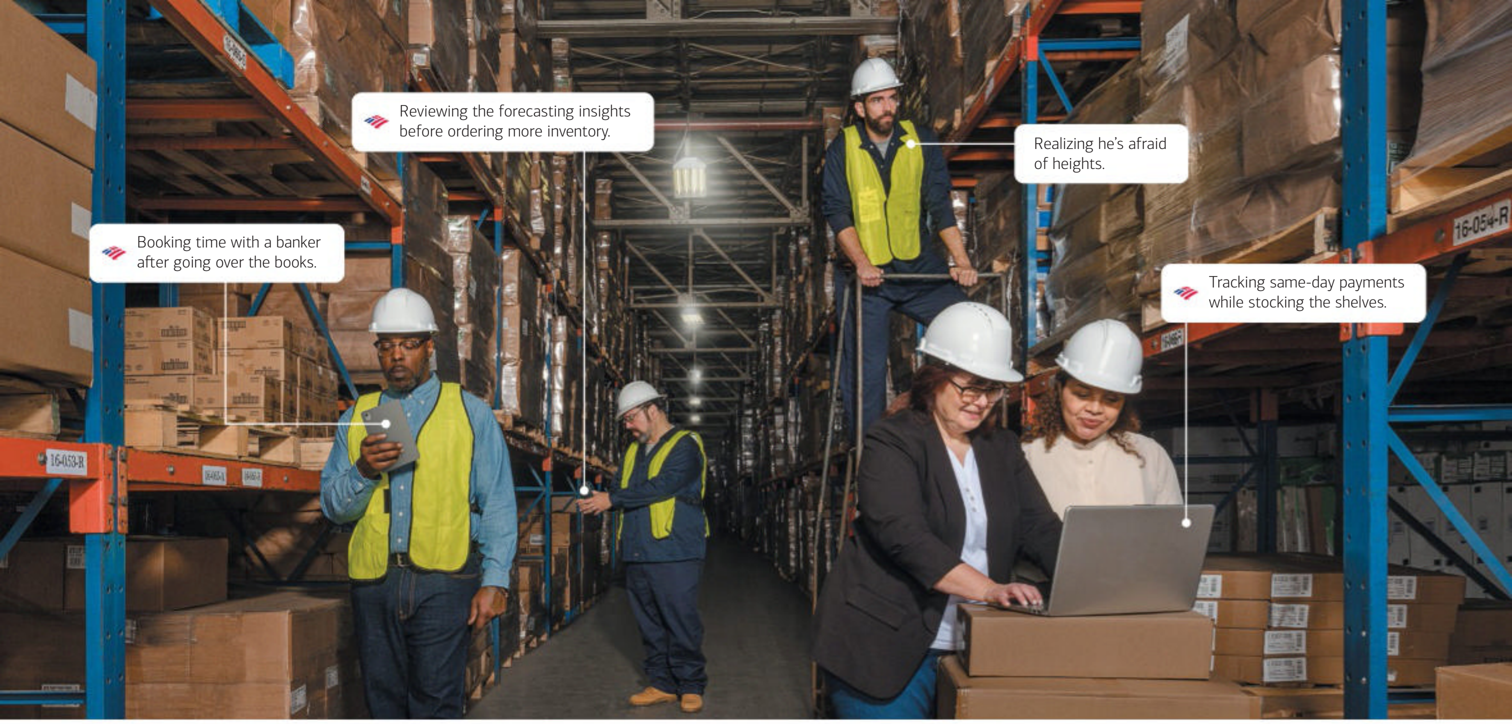
S&Ls are a Depression-era creation that specialize in home mortgages. By the early 1980s, they were unable to pay competitive rates on deposits and were losing money, so a new law relaxed lending and capital-requirement rules. Risky real estate and junk bond investments and outright fraud eventually led to the collapse of nearly 1,000 S&Ls and a bailout of the Federal Savings and Loan Insurance Corp.

Sound familiar? It's a reminder that boom-and-bust cycles—and varying levels of regulation—are baked into our economy and markets. And, as always, Kiplinger will be there to help you and your money thrive, no matter what the economy throws your way.

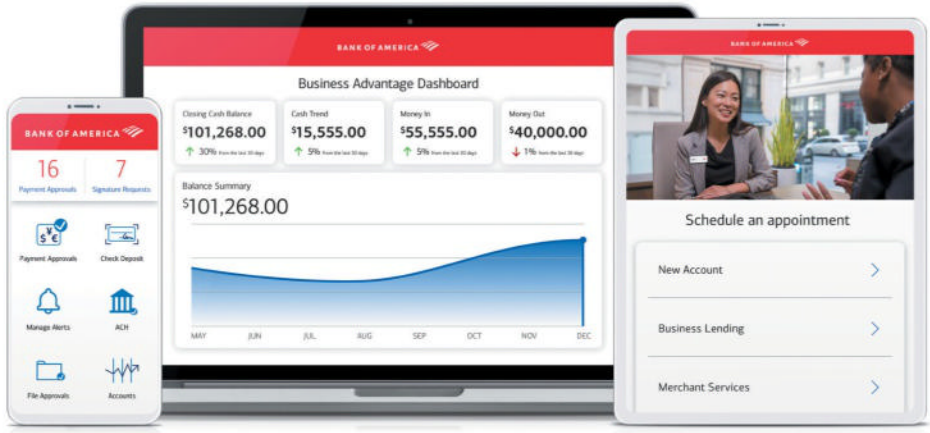
Mark Solheim

MARK SOLHEIM, EDITOR
MARK_SOLHEIM@KIPLINGER.COM

ILLUSTRATION BY PATRICK WELSH



Business solutions so powerful, you'll make every move matter.



BANK OF AMERICA

What would you like the power to do?®

Learn more at bankofamerica.com/bankingforbusiness

Kiplinger's PERSONAL FINANCE

EDITORIAL

EDITOR AND EDITORIAL DIRECTOR, PERSONAL FINANCE **Mark K. Solheim**
EXECUTIVE EDITOR **Anne Kates Smith**
MANAGING EDITOR **Frederic Fane Wolfer**
SENIOR EDITOR **Sandra Block**
SENIOR ASSOCIATE EDITORS **Kim Clark, Lisa Gerstner, Nellie S. Huang**
EDITOR AT LARGE **Janet Bodnar**
CONTRIBUTING EDITORS **James K. Glassman, Jeffrey R. Kosnett**
STAFF WRITER **Emma Patch**

ART

ART DIRECTOR **Will Tims**
DESIGN CONSULTANT **Sensical Design**

SALES

INTERIM PUBLISHER **Stevie Lee** (stevie.lee@futurenet.com)
SENIOR ACCOUNT DIRECTOR **Maggie Kinsky** (maggie.kinsky@futurenet.com)
ACCOUNT DIRECTOR, WEALTH **Dominick Cerritelli** (dominick.cerritelli@futurenet.com)
ACCOUNT MANAGER **Rebecca Haber** (rebecca.haber@futurenet.com)
ACCOUNT DIRECTOR, WEALTH & DIRECT RESPONSE **Anthony Smyth** (914-409-4202; anthony@smythps.com)

ADVERTISING OPERATIONS

ADVERTISING OPERATIONS EXECUTIVE **Mike Roche** (Mike_Roche@kiplinger.com)
MEDIA PLANNING MANAGER **Andrea Crino** (Andrea_Crino@kiplinger.com)

CREATIVE SOLUTIONS

CREATIVE DIRECTOR, WEALTH **Michael Holstein**
ASSOCIATE DIRECTOR **Megan Harmon**
SENIOR EDITOR **Eileen Ambrose**

KIPLINGER.COM

SENIOR DIGITAL EDITOR **Alexandra Svokos**
SENIOR RETIREMENT EDITOR **Elaine Silvestrini**
TAX EDITOR **Kelley Taylor**
CONTRIBUTORS EDITOR **Joyce Lamb**
ASSOCIATE ESG INVESTING EDITOR **Ellen Kennedy**
CONTRIBUTING EDITOR **Karee Venema**
STAFF WRITER **Erin Bendig**
CONTRIBUTING WRITER **Dan Burrows**
AUDIENCE ENGAGEMENT MANAGER **Ben Demers**
DIGITAL PRODUCER **Quincy Williamson**

CIRCULATION

SENIOR CIRCULATION MANAGER **Roseann Ciccarello**
DIRECTOR, COMMERCIAL ART **Lori Smedley**

EXECUTIVE STAFF

SENIOR VICE PRESIDENT, FUTURE PLC **Sarah Rees**
CONTENT DIRECTOR, WEALTH **Louise Okafor**
VICE PRESIDENT, CONSUMER MARKETING – GLOBAL SUPERBRANDS **Nina La France**
VICE PRESIDENT, MARKETING **Christopher Moffa**

FOUNDERS

W.M. Kiplinger (1891–1967), Founder
Austin H. Kiplinger (1918–2015), Former Chairman and Editor
Knight A. Kiplinger, Editor Emeritus

CUSTOMER SERVICE

Visit kiplinger.com/customer-service
Call 800-544-0155 or write P.O. Box 37234, Boone, IA 50037-0234

PRINTED IN USA

KIPLINGER'S PERSONAL FINANCE (ISSN 1528-9729) is published monthly by FUTURE US LLC, except for double issues as indicated on the cover of each double issue, and any other occasional combined or extra issues. Frequency of issues is subject to change without notice, which may include changes in the number of double issues. If the post office alerts us your issues are undeliverable, we have no further obligation unless we receive a corrected address within one year. Editorial and Executive Offices: 130 West 42nd Street, 7th Floor, New York, NY 10036 (202-887-6400). Subscription Center/Customer Service: Visit us online at kiplinger .com/customer-service or call 800-544-0155. POSTMASTER: Send all UAA to CFS. NON-POSTAL AND MILITARY FACILITIES: Send address corrections to Kiplinger's Personal Finance, P.O. Box 37234, Boone, IA 50037-0234. GST# 123395253. Volume 77, Issue 6. Periodical postage paid at Washington, DC, and at additional mailing offices. Subscription prices: In U.S. and possessions $34.95 for one year, $59.95 for two years, $84.95 for three years. Additional international postage: $25.00 per year. Single-copy price: $7.95.

AHEAD

TOPIC A

ARE YOUR BANK DEPOSITS SAFE?

Recent bank failures have unnerved savers, but your money is protected up to certain limits. Here's what you need to know. **BY SANDRA BLOCK AND ANNE KATES SMITH**

UNLESS YOU ARE WELL INTO YOUR nineties or have lived in a country without an established banking system, it's highly unlikely you've ever lost money due to a bank failure. Since the Federal Deposit Insurance Corp. was created in 1933, no bank customer has lost a penny in insured deposits, even during the darkest days of the 2008–09 financial crisis.

ILLUSTRATION BY FRAN PULIDO

But that didn't prevent some savers from breaking into a cold sweat in March when Silicon Valley Bank failed and regulators assumed control. It was the largest bank failure since the financial crisis, and it was followed by a cascade of unnerving banking news, including the collapse of Signature Bank, the shutdown of Silvergate Capital and efforts by some of the country's largest banks to shore up the finances of regional giant First Republic Bank after customers withdrew $70 billion in deposits. But unless you have a large amount of money in the bank, that is probably something you can cross off your worry list.

The FDIC insures traditional bank deposits—such as checking and savings accounts, money market deposit accounts, and certificates of deposit—for up to $250,000 per depositor, or $500,000 for joint accounts, per bank. The National Credit Union Administration (NCUA)—also a federal agency—provides the same coverage with the same limits for credit unions.

Advice for Investors

Intrepid bargain hunters can pick through the rubble of midsize bank stocks—UBS Securities recommends Western Alliance (symbol WAL), for one—or, with no telling how long this crisis of confidence will last, stick to the largest U.S. banks. (For columnist James Glassman's take on bank stocks, see "Street Smart," on page 36.) Or consider stocks that may have been unfairly penalized, say some analysts, such as Charles Schwab (SCHW). Although its earnings power has likely shrunk some in the near term, "Charles Schwab has enough access to cash and capital to weather the storm in the financial sector," says Morningstar analyst Michael Wong.

But for most investors, the prudent course of action in an uncertain market with a recession looming is to remain cautious. Focus on defensive assets such as bonds and high-quality shares in general, like those found in exchange-traded fund iShares MSCI USA Quality Factor (QUAL). "Our portfolio recommendations revolve around capital preservation and quality segments of the market that reflect strong balance sheets, robust cash flows, easy access to credit and diverse product offering," says Scott Wren, senior global market strategist at Wells Fargo Investment Institute. "The opportunity to take a more assertive posture will come, but now is not the time."

What to do if you're over the limit. If for some reason you need to stash more than $250,000 in the bank—you just sold a house or small business, for example—there are ways to protect funds that exceed that limit. If you like your bank and want to keep all of your business there, you can boost coverage by setting up multiple accounts that are titled differently. For example, a married couple could have a joint account insured up to $500,000; two individual accounts, each insured up to $250,000; and two retirement accounts, each covered up to $250,000. That would bring their total FDIC coverage to $1.5 million.

Another option is to open accounts at multiple banks, because FDIC coverage limits apply per depositor, per bank. This may seem like a hassle, but there are services that will do the work for you. For example, IntraFi (www.intrafinetworkdeposits.com) will deposit excess funds from checking accounts, money market deposit accounts and CDs at FDIC-insured banks in its network.

Online banks offer convenience and may pay higher interest rates on savings accounts and CDs than their brick-and-mortar counterparts. But if you're unfamiliar with an institution, use the tool at www.fdic.gov/bankfind or the NCUA tool at www.ncua.gov to make sure your deposits will be protected. The rise in nonbank financial technology companies has led to some confusion about which customers' deposits are insured, the FDIC says.

The big picture. Bank failures have been relatively rare in recent years, and banking leaders say the recent turmoil doesn't signal a broader malaise. SVB primarily served technology start-ups and venture capitalists, and more than 93% of its deposits were uninsured. When the bank reported nearly $2 billion in investment losses, word spread quickly on social media, prompting customers to withdraw $42 billion in 24 hours. The panic spilled over to Signature Bank, which served many private and cryptocurrency customers and also had a large percentage of uninsured deposits.

Investors can take comfort in assurances from many market experts that the regional banking panic of 2023 seems unlikely to morph into anything like the great financial crisis of 2008. But the risk of recession is undoubtedly higher, and continued market volatility is a given.

A diminished appetite for risk at regional banks will mean fewer loans, says Mark Haefele, chief investment officer for UBS Global Wealth Management. These banks account for some 50% of commercial and industrial loans, 60% of residential real estate loans, 80% of commercial real estate loans and 45% of consumer loans. The potential fallout from tighter lending standards is a small-business credit crunch and higher unemployment, he says.

Economists at Goldman Sachs estimate that a lending pullback could trim economic growth by one-fourth to one-half percentage point—equivalent to a similar size rate hike from the Federal Reserve. Goldman raised its forecast of the probability of recession during the next 12 months to 35%, from 25% before the bank troubles. With the banking crisis doing some of the Fed's work—making economic conditions more restrictive in order to bring down inflation—central bank rate hikes are likely at or near an end. ■

INTERVIEW

FIND FINANCIAL ADVICE YOU CAN TRUST

Investors looking for a broker have a new tool to avoid the bad actors.

Micah Hauptman is director of investor protection for the Consumer Federation of America, a research, advocacy and education organization.

The Department of Labor's fiduciary rule, which requires financial professionals who give retirement advice to act in their clients' best interest, was struck down in a 2018 court challenge. What's the status of the fiduciary standard now? It is on the DOL's regulatory agenda, and we're waiting for them to repropose it. We don't know what that rule will look like, but we're optimistic that it will cover some of the loopholes that exist from the 1975 definition of the fiduciary rule.

Didn't the Securities and Exchange Commission seek to address this issue by adopting a "best interest" requirement for broker-dealers? The SEC finalized that rule after the fiduciary rule was struck down. It requires broker-dealers to serve the best interest of their customers, but it never defined what best interest meant. The rule is very vague. There has only been one enforcement case brought by the SEC since the rule was adopted, so it's tough to see how it's a significant improvement over the old suitability rule, which requires that investments must be suitable but don't have to be the best of the reasonably available options.

Certified financial planners are required to act as fiduciaries. What other steps can investors take to make sure a planner or broker is looking out for their best interest? Look for a financial professional who has structured their business model to minimize conflicts of interest. In my view, fee-only financial planners are the least-conflicted professionals. A great source for finding a fee-only planner is the National Association of Personal Financial Advisors (www.napfa.org). Investors can pay for fee-only advice in a variety of ways—by the hour, for example, or by signing up for a monthly subscription or paying a percentage of assets under management.

Finra, the self-regulatory organization for the brokerage industry, is planning to add a "restricted" designation in its BrokerCheck database to brokerage firms that have a history of disciplinary actions and investor complaints. Will this help investors vet brokers? A very small number of firms are going to be restricted—less than 2%, according to Finra's analysis. But it's still meaningful information that can help investors make better choices in deciding whether to engage a firm. And brokerage firms will have a strong incentive to clean up their act because they don't want to stay on the restricted list.

Following the collapse of FTX, investors lost billions of dollars in cryptocurrency. What should investors know before investing in crypto? Should retirement plans be allowed to invest in it? Cryptocurrencies can be incredibly speculative and volatile investments. We've seen prices swing wildly and crash without warning. As the FTX collapse illustrated, cryptocurrency accounts are not safeguarded like traditional investment accounts. As for retirement plans, investing in cryptocurrency exposes savers to excessive risk. One 401(k) provider would allow investors to allocate up to 20% of their savings to cryptocurrency. The employer sponsoring the retirement plan, not the financial services firm offering cryptocurrency, is the fiduciary, which means the employer is required to look out for the best interests of its employees. Employers are the ones that are going to be on the hook for exposing plan participants to the risk of cryptocurrency.
SANDRA BLOCK

PHOTO BY TOM MORRIS/PAINTED BENCH PHOTOGRAPHY

Summer like you mean it with

WORLD-FAMOUS PERFECTION

Omaha Steaks are hand-selected for unmatched quality, naturally aged for maximum tenderness, and flash-frozen to lock in that unforgettable flavor. Hot grills, cold drinks, and warm memories are waiting.

AMERICA'S ORIGINAL BUTCHER
OMAHA STEAKS
SINCE 1917

YOU WILL LOVE IT
100%
GUARANTEE
Always.
OUR FAMILY PROMISE

THE BEST STEAKS OF YOUR LIFE OR YOUR MONEY BACK

Flavorful Grill Pack

- 4 Bacon-Wrapped Filet Mignons (5 oz.)
- 4 Air-Chilled Boneless Chicken Breasts (5 oz.)
- 4 Boneless Pork Chops (6 oz.)
- 4 Gourmet Jumbo Franks (3 oz.)
- 4 Individual Scalloped Potatoes (3.8 oz.)
- 4 Caramel Apple Tartlets (4 oz.)
- 1 jar Omaha Steaks Seasoning (3.1 oz.)
- 8 **FREE** Omaha Steaks Burgers (5 oz.)

73334ABK separately ~~$270.93~~
SPECIAL INTRODUCTORY PRICE $99.99

LIMITED TIME
GET 8 FREE BURGERS

Click: OmahaSteaks.com/GrillPack4839 » Call: 1.800.811.7832 » Scan Now:
Ask for your 8 FREE burgers with offer 73334ABK

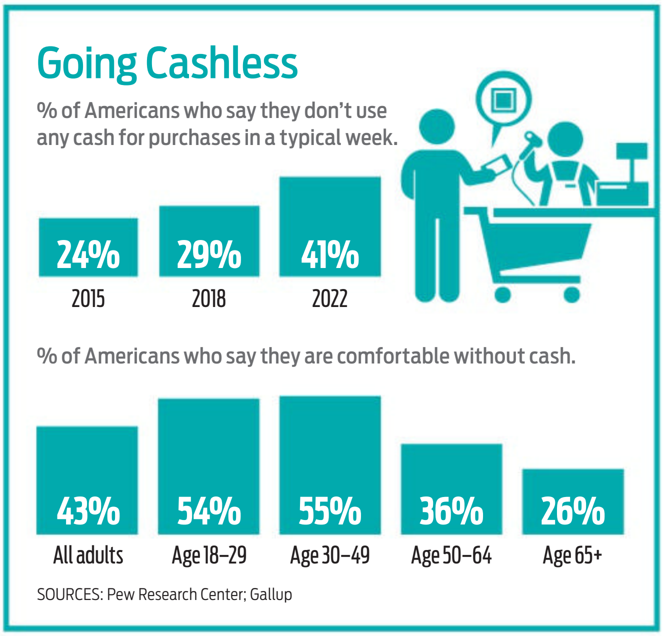
Savings shown over aggregated single item base price. Photos exemplary of product advertised. Limit 2. 8 free 5 oz. burgers will be sent to each shipping address that includes 73334. Standard S&H added per address. While supplies last. Items may be substituted due to inventory limitations. All purchases acknowledge acceptance of Terms of Use: OmahaSteaks.com/terms-of-useOSI or call 1.800.228.9872 for a copy. Expires 07/31/23. | SRC0748

OmahaSteaks.com/GrillPack4839

MODERN MONEY

NO CASH? NO PROBLEM

More and more Americans have abandoned paper money and coins, but there are risks to using peer-to-peer digital payments.



IF YOU CAN'T REMEMBER the last time you paid cash for groceries or a cup of coffee, you're not alone. More than 40% of Americans say they don't use cash for any of their purchases in a typical week, up from 24% in 2015, according to Pew Research (see the box at right).

What's more, many Americans have resigned themselves to a world without cash: Nearly 65% believe that it's either likely or very likely that the U.S. will become a cashless society in their lifetimes, according to a Gallup poll conducted in 2022.

Multiple factors have led to a shift away from cash, including the increase in online shopping, particularly during the COVID-19 pandemic, and the growing use of self-checkout lanes at grocery and other retail stores. Technology has also played a role. Electronic payment devices have made it possible for even very small merchants, such as sellers at local farmers markets, to accept digital payments. Meanwhile, smartphone apps such as Zelle, Venmo, Apple Pay and Cash App allow users to pay their babysitters or split a restaurant bill without opening their wallets. The shift has led to some profound changes in the retail and banking industry. Some retailers no longer accept cash payments, while the number of ATMs has declined by 4% since 2019, according to Euromonitor International, a London-based research firm.

Misdirected money. While transferring money via payment apps is convenient, the fact that you don't have to do it in person increases the risk that you'll send it to the wrong recipient. In addition, scammers have targeted users of mobile payment apps by impersonating legitimate businesses seeking payment for a product or service. Others pretend to be a loved one needing cash to pay for an emergency. Another tactic is to send a text purportedly from your bank, claiming that your account has been compromised.

Some 13% of people who have used one of the most popular payment apps say they've been victimized by a scam, while 11% report that their accounts have been hacked, according to Pew Research. U.S. consumers lost $1.6 billion to payment app scams in 2021, an amount that's projected to rise to $3 billion by 2026, according to ACI Worldwide, a payments software company. These scams aren't new, but they're problematic for users of mobile payment apps. Once you transfer money, it's difficult to get it back, even if you were scammed or accidentally sent it to the wrong recipient. However, if a criminal hacks your P2P account (say, by stealing your user name and password and logging in from his or her device) and makes unauthorized transactions, you may have some legal protections.

Some lawmakers are pressuring the banks that own the Zelle network to reimburse customers who lose money due to payment fraud. It's unclear, though, how such a plan would work and whether it would cover customers who lose money due to user error.

If you use payment apps, the Federal Trade Commission and the American Bankers Association offer these tips:

- Protect your account with multifactor authentication or a PIN.
- Confirm the name, e-mail, phone number or applicable identifier of your intended recipient before you transfer money.
- Don't share bank authentication or verification numbers or your personal information with anyone who contacts you, even if caller ID indicates it's a familiar company.
- Set up alerts to notify you of transactions in your account.
- Treat mobile payments like cash. If a business makes a request for payment, don't make it until you've received the product.

SANDRA BLOCK

CALENDAR JUNE 2023

THU 1 **Hurricane season** begins today, and in many parts of the country, wildfire season isn't far off, either. Financial fallout from a natural disaster can be lessened if you plan ahead. Assess the risks in your area and review your homeowners insurance policy. For more on disaster preparedness, see the interview with Josh DeVincenzo, of the National Center for Disaster Preparedness, on page 72.

THU 15 It's the deadline for military personnel on active duty outside the U.S. and other taxpayers who are living and working outside of the U.S. to **file their 2022 federal tax return**. It is also the deadline for those taxpayers to file for a four-month extension. Remember: The extension gives you more time to file, but it doesn't give you more time to pay if you owe money to the IRS.

SUN 18 It's **Father's Day**. If your dad loves being active, consider shopping June sales on activewear. Retailers will be discounting workout apparel and fitness gear for customers who may be renewing their New Year's resolutions to get in shape.

FRI 30 Today is the final day to file the **Free Application for Federal Student Aid** for the 2022–23 academic year. Although many states and universities impose earlier deadlines, it could be your last chance to secure federal aid for the academic year. **EMMA PATCH**

DEAL OF THE MONTH

Summer is still a popular time for weddings, which means a lot of people will be shopping for traditional wedding gifts. You can find dinnerware sets for as little as $20 at Wayfair, while retailers such as Nordstrom Rack may offer Calphalon bakeware sets for around $55 and nonstick cookware sets for as little as $60, says Julie Ramhold, consumer analyst for DealNews.

JOE RAEDLE/GETTY IMAGES (TOP); SHUTTERSTOCK

BRIEFING

INFORMATION ABOUT THE MARKETS AND YOUR MONEY.

WHAT TO KNOW ABOUT MONEY FUNDS

The run on Silicon Valley Bank and the cascade of bank troubles in March spooked depositors, who withdrew billions of dollars from bank accounts. Much of their money ended up in money market mutual funds. Investments in money funds skyrocketed by about $67 billion during the first three weeks of March, according to the Investment Company Institute.

Money funds hold low-risk, short-term investments, such as Treasury bills and other government securities, commercial paper and certificates of deposit. Although money funds are relatively safe, they are not as safe as their bank-version equivalents—money market deposit accounts (MMDAs), which are insured by the Federal Deposit Insurance Corp. (money market funds are considered securities and are protected by SIPC insurance).

For emergency savings or other cash that needs to be safe and readily accessible from your bank, a money market account makes sense. Money that you may want to quickly move into the market—say, to scoop up stocks at low prices during a dip—is often best parked in a money fund linked to the rest of your investment portfolio. But if you're holding extra cash these days, a money fund may be a good place to earn extra yield.

Money fund yields react more quickly than bank accounts to Federal Reserve interest rate hikes, and it's easy to find yields north of 4%. "Money market funds are more sensitive to interest rate fluctuations than other types of investments," says Jordan Gilberti, a certified financial planner and senior lead planner at Facet Wealth Management, in Baltimore, Md.

While the average yield on MMDAs was recently 4.57%, according to the FDIC, "prime" money funds recently averaged 4.65%, according to the Securities and Exchange Commission.

Finding the right fund. There are three kinds of funds: prime, government and municipal. Prime money market funds are invested in cash and corporate notes. Government money market funds invest in government debt securities, such as Treasury bills and bonds.

The third kind, municipal (or tax-free) money funds, are usually exempt from federal taxes, and sometimes state taxes. If you're in one of the top federal income tax brackets and live in a state with high income taxes, you may come out ahead with a tax-free fund. Look at the taxable-equivalent yield—the yield you'd need to earn on a comparable taxable fund after paying taxes to match the yield of the tax-free fund. If a tax-free fund yields, say, 2.4%, that's a taxable-equivalent yield of 3.8% for an investor in the 37% federal tax bracket.

No matter which type you choose, look for a combination of high yield and low expenses. For example, **VANGUARD FEDERAL MONEY MARKET** (SYMBOL VMFXX, YIELD 4.8%) has an expense ratio of 0.11%, meaning you pay $11 for every $10,000 invested. We list top-yielding money funds on page 50; for more on how to get high yields, see "Angling for High Yields in Today's Market," on page 20. **ELLA VINCENT**

21%

The average loss in 2022 in the 35 million 401(k) accounts administered by Fidelity.

GETTY IMAGES

SOCIAL SECURITY TRUST FUND COUNTDOWN

Unless Congress acts to fix the program, Social Security will be unable to pay retirees full benefits starting in 2034, a year earlier than projected in 2022, according to the annual report of the Social Security Board of Trustees.

The trustees said the slowdown in the economy and persistent inflation have put additional pressure on Social Security's finances. If the trust fund is depleted, Social Security will be able to pay retirees only about 77% of their scheduled benefits.

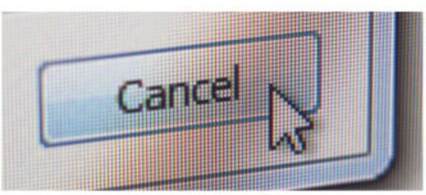
Separately, Medicare's Board of Trustees said Medicare's hospital trust fund has sufficient funds to cover 100% of bills until 2031, which is three years later than last year's projection. The three-year extension reflects lower estimates for health care spending.

Lawmakers have considered several proposals to shore up Social Security and Medicare, including increasing the retirement age, increasing payroll taxes, or a combination of the two. In a statement, Treasury Secretary Janet Yellen urged Congress to move forward sooner rather than later. "With each year that lawmakers do not act, the public has less time to prepare for the changes," she said. **SANDRA BLOCK**

Key Findings of the 2023 Trustees Reports	Social Security	Medicare
Type of benefit paid from the trust fund	Retirement and survivor benefits	In-patient hospital and post-acute care
Full scheduled benefits are expected to be payable until	2033	2031
Percentage of scheduled benefits payable at time of reserve depletion	77%*	89%**

* The percentage of scheduled benefits payable is projected to decline to 71% by 2097.
** The percentage of scheduled benefits payable is projected to decline to 81% by 2047 before gradually increasing to 96% by 2097.

COMING SOON: CANCEL SUBSCRIPTIONS WITH JUST A CLICK



Some industries are notorious for making canceling subscriptions onerous—think cable TV, internet service and gym memberships. Now the Federal Trade Commission has proposed a "click-to-cancel" provision that would make it much easier to cancel a subscription or service. The proposal would amend the current "negative-option rule," which companies use to notify customers about a product, send it and then charge for it unless the customer affirmatively declines.

Each year, the FTC receives thousands of consumer complaints about practices such as billing consumers without their consent or making cancellation difficult—such as by requiring customers to cancel in person or keeping them stuck on hold, waiting to talk to customer service.

"The proposal would save consumers time and money, and businesses that continued to use subscription tricks and traps would be subject to stiff penalties," says FTC Chair Lina M. Khan.

Among the proposed rule changes: Businesses would be required to make it at least as easy to cancel a subscription as it was to start it. Also, sellers could pitch additional offers or modifications when a consumer tries to cancel. But if the answer is no, sellers must immediately implement the cancellation process.

The proposal would also require sellers to provide an annual reminder to consumers enrolled in negative-option programs involving anything other than physical goods before they are automatically renewed. The FTC will consider public comments before the rule is adopted. **MARK SOLHEIM**

From *The Kiplinger Letter*

CREDIT CARD AND OTHER DEBT CLIMBS HIGHER

Despite rising interest rates, consumers are relying more on credit cards and other debt to pay for things, according to recent Federal Reserve data.

Overall, consumer borrowing increased at an annualized rate of 3.7% in January. Revolving credit outstanding, which is mostly credit card debt, jumped 11.7%, after rising 7.2% the month before. Nonrevolving credit, which includes auto, home and school loans, rose 1.2%. The six biggest increases in revolving consumer credit in the last two decades have occurred in the past 12 months. The average annual percentage rate on credit cards has reached the highest rate since the mid 1990s. Expect delinquency rates for credit cards and auto loans to rise this year. Meanwhile, lending standards are set to tighten this year.

GETTY IMAGES


Kiplinger's
RETIREMENT REPORT
When your retirement advice is right
on the money, your decisions are, too.

INVESTING

ILLUSTRATIONS BY GIULIA NERI

Angling for HIGH YIELDS in Today's Market

Use our guide to hook the best income opportunities in nine categories, from super-safe options to higher-risk choices with big potential rewards.

BY ANDREW TANZER

Late to address the inflation challenge, the Federal Reserve Board has made up for lost time by jacking up the federal funds rate (the rate banks charge each other for overnight loans) by 4.75 percentage points since March 2022. The rate hikes have not yet slain the inflation bogeyman—but did succeed in crushing stock and bond markets in 2022. Now the Fed must also weigh the risks of a banking crisis and possible recession in determining its path forward.

If there is one silver lining from the dramatic tightening of monetary policy, it is that much-higher rates have produced some attractive yields for investors in bonds and some other asset classes. "Investors have opportunities in all kinds of income-producing categories that they haven't had for 15 years," says Andy Kapyrin, co-chief investment officer of CI RegentAtlantic Private Wealth.

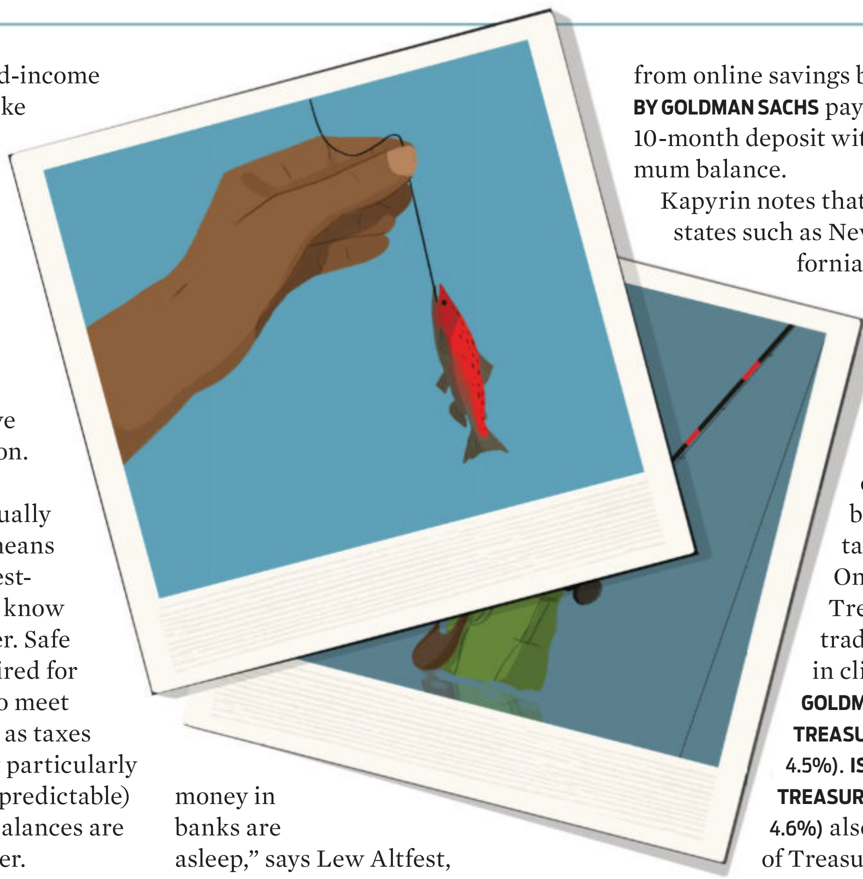
Yields are respectable again in Treasury securities and high-grade corporate IOUs and much plumper in riskier high-yield bonds. Weaker stock prices and increases in dividend distributions have created opportunities in stocks and energy-infrastructure businesses, with the additional advantage of providing some protection against rising consumer prices. As a result of jumpy markets, shares of many closed-end funds and business development companies (a new category in this year's income survey) are selling at significant discounts to the value of the assets in their portfolios.

This guide will help you find attractive income-producing investments in nine different categories, ranging from low-risk, ordinary securities to rather complex, high-risk offerings with the potential for high returns. Although yields and risk typically move higher in lockstep, that's not always the case this year, and we've listed investments roughly in order of ascending risk.

Before you reach for some handsome yields, though, keep a few considerations in mind. You should have a financial plan that targets long-term portfolio allocations. Everyone's financial picture is unique, but generally speaking you should ensure that you have enough cash or cash equivalents on hand to cover a minimum of six months' worth of living expenses before you invest in high-risk/high-return assets. Prices, yields and other data are through March 31, unless otherwise noted. Be aware that as interest rates jump around, yields on bond funds are a fast-moving target.

5% | SHORT-TERM ACCOUNTS

Yields on short-term, fixed-income accounts and securities take their cue from Fed policy, and that is resulting in some attractive yields for cash and other short-term liquid assets. "Instruments with little risk finally are offering respectable yields," says Kapyrin. After years of famine, investors now have some tasty yields to feast on.



THE RISKS: Rates are unusually volatile this year, which means that when short-term investments mature, it's hard to know what yields will be on offer. Safe cash equivalents are required for emergency reserves and to meet near-term liabilities, such as taxes and tuition payments. But particularly in this era of high (and unpredictable) inflation, excessive cash balances are a drag on purchasing power.

HOW TO INVEST: The stunningly rapid rise of interest rates has created some distortions. For example, even with 4%-to-5% yields available today in low-risk assets, many banks are still paying customers less than 1% on their deposits. "People who have their money in banks are asleep," says Lew Altfest, chief investment officer of Altfest Personal Wealth Management.

Money market mutual funds trade daily, which can be important for liquidity, and funds such as **VANGUARD FEDERAL MONEY MARKET** (SYMBOL VMFXX, YIELD 4.8%) offer attractive yields. An FDIC-insured certificate of deposit from online savings bank **MARCUS BY GOLDMAN SACHS** pays 5.1% on a 10-month deposit with a $500 minimum balance.

Kapyrin notes that in high-tax states such as New York and California, Treasury bills, which are free from state and local taxes, have a substantial advantage over CDs and other interest-bearing assets in taxable accounts. One short-term Treasury exchange-traded fund he uses in client accounts is **GOLDMAN SACHS ACCESS TREASURY 0-1 YR** (GBIL, $100, 4.5%). **ISHARES 1-3 YEAR TREASURY BOND** (SHY, $82, 4.6%) also holds a basket of Treasuries, but its higher duration (a measure of interest-rate sensitivity) puts it more at risk if rates keep rising (rates and prices move in opposite directions). Default is not a risk with these funds, but you can lose money in either because net asset values fluctuate daily with changes in bond prices.

4%–5%* | MUNICIPAL BONDS

Issued by U.S. states and local governments, muni bonds pay interest that is free from federal taxes—and for bonds issued in your state of residence, free from state and local taxes as well. High-quality, investment-grade munis (you can also find riskier, high-yield munis) tend to perform well in a recession and, like Treasuries, can benefit from a flight to securities seen as safe havens in turbulent bond markets, such as we have experienced in 2023.

THE RISKS: Since muni bond prices have moved higher in sympathy with Treasuries, munis are not a screaming value today. "You really need to be in the highest tax brackets in high-tax states for munis to make sense," says Kapyrin. However, thanks in part to bountiful COVID-related relief, municipal government finances are generally sound and, like Treasuries, the asset class can play a useful diversifying role in a portfolio.

HOW TO INVEST: To calculate and compare the tax-equivalent yield of a muni to a Treasury or other taxable bond, simply divide the yield by 1 minus your federal income tax bracket. For example, for someone in the 24% tax bracket, the tax-equivalent yield of a muni bond yielding 3% is 3.95% (3%/1 – 0.24).

You can gain exposure to well-diversified baskets of investment-grade muni bonds by investing in a national muni fund. Actively managed **VANGUARD INTERMEDIATE-TERM TAX-EXEMPT (VWITX, 3.2%)** holds 12,400 bonds, 90% of which are rated A or higher, and has a duration of 4.8, which implies a loss of approximately 4.8% if yields move up by one percentage point. For a taxpayer in the 24% federal bracket, the tax-equivalent yield is 4.2%, or 5.1% for someone in the highest federal bracket of 37%. You can do slightly better on yield with **VANGUARD TAX-EXEMPT BOND (VTEB, 3.3%)**, which has a rock-bottom expense ratio of 0.05% but comes with a higher duration of 5.9. The tax-equivalent yield is 4.3% for investors in the 24% bracket, or 5.2% for those in the 37% bracket.

Mary Ellen Stanek, president of Baird Funds, notes that the farther out on the yield curve you go, the more attractive munis start to look compared with taxable bonds. For example, a five-year muni's yield is less than two-thirds that of a Treasury of the same maturity but 92% the yield of a 30-year Treasury. **FIDELITY MUNICIPAL INCOME (FHIGX, 3.4%)** has a duration of 7.4 and tax-equivalent yields of 4.5% and 5.4% for taxpayers in the 24% and 37% brackets, respectively. The fund is heavily weighted toward revenue bonds (as opposed to general obligation issues), which are supported by specific projects—in this case, mostly in the health care and transportation sectors. The two largest state exposures are Illinois and Pennsylvania.

*Tax-equivalent yields for investors in the 24% tax bracket

4%–5% | INVESTMENT-GRADE BONDS

The core of a typical fixed-income portfolio comprises investment-grade bonds issued by the U.S. Treasury, government agencies (mortgage-backed securities, for instance) and corporations. Prior to 2022, when interest rates surged, these assets offered little income.

That has changed dramatically over the course of the past year. "Investment-grade bonds are a compelling asset class today and have restored their ability to diversify portfolios," says David Albrycht, chief investment officer of Newfleet Asset Management. In short, bonds are back.

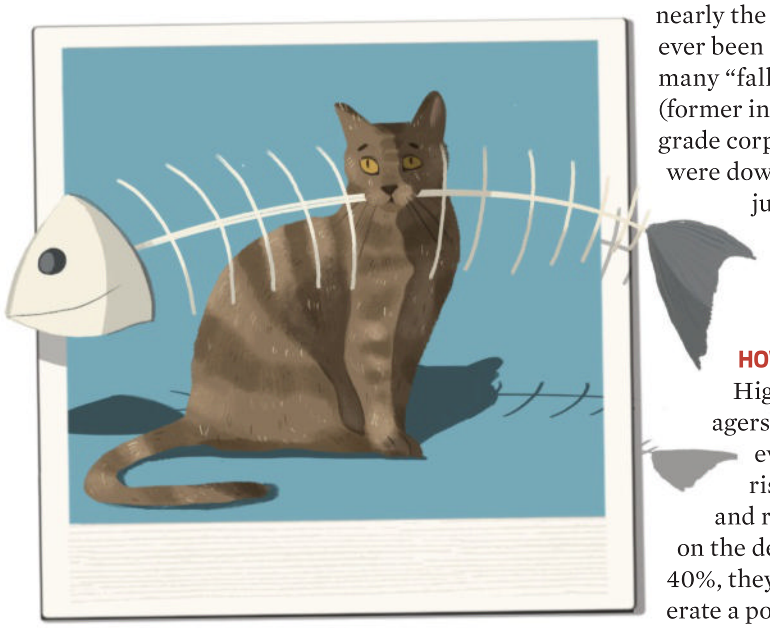
THE RISKS: Last year was one of the worst years for bonds in history, owing to those surging rates. The Bloomberg U.S. Aggregate Bond index, which tracks intermediate-term investment-grade paper, slumped 13% in 2022. But that was then. One new risk is that some investors are so shell-shocked from losing money on high-grade bonds in that dreadful year that they don't take advantage of today's much higher yields (and lower risk due to the interest rate starting point).

HOW TO INVEST: One thing that excites Kapryin is that investors can again earn positive real yields (the yield minus the inflation rate) on Treasuries and corporate bonds after losing money on an inflation-adjusted basis in 2021 and 2022. For example, he notes that real yields on intermediate-term corporate bonds are 2% to 3%. "After inflation, you're talking about a yield that is back to normal," he says.

FPA NEW INCOME (FPNIX, 4.1% as of February 28) has a sterling record of risk management and protecting shareholders' capital. Abhijeet Patwardhan, the manager, says he has been extending the duration of the portfolio (roughly 2, currently) over the past 18 months with the increase in interest rates. He's particularly fond of structured products, such as mortgage- and asset-backed securities, which, unlike most corporate bonds, are secured by the asset in which you're investing. "We find that you can get better yields than on Treasuries or corporate bonds of comparable maturities," he says.

Securitized asset-backed products are the stock-in-trade of Jeffrey Gundlach's **DOUBLELINE TOTAL RETURN BOND** (DLTNX, 4.9% as of February 28). Jeffrey Sherman, DoubleLine's deputy chief investment officer, says the fund has extended its average duration from 4 at the start of 2022 to 6.3, the longest in the fund's history. "You get paid to take risk now," he says. Sherman notes that Total Return has also upgraded the portfolio's credit quality by moving more into government-guaranteed assets, such as agency mortgage-backed securities.

For something more diversified, consider **BAIRD AGGREGATE BOND** (BAGSX, 3.9%). Piloted by Baird's co-chief investment officers, Stanek and Warren Pierson, this intermediate-term fund (its duration is 6.3) invests in government and corporate debt along with asset-backed securities. The fund is a recent addition to the Kiplinger 25, the list of our favorite no-load, actively managed funds.



7%–10% | HIGH-YIELD BONDS

High-yield "junk" bonds are issued by firms with below-investment-grade ratings. For lending to these riskier businesses, investors are compensated with higher yields than investment-grade bonds offer (the current yield of a widely used high-yield bond index is nearly 9%). Junk bonds move more in sync with stocks than Treasuries and most likely merit only a limited portion of your fixed-income allocation.

THE RISKS: The risk of default is normally the chief concern, and defaults historically have surged during recessions. But junk-bond fund managers are sanguine that even if a recession arrives, the default rate will rise to maybe only 4% this time instead of the historical average of 8% or higher. "The bad companies got washed out during COVID, and the fair-to-good companies were able to refinance and lock in low interest rates and extend maturities," says Dave Breazzano, portfolio manager and head of Polen Capital's high-yield team. The share of BB-rated companies, the highest rung of junk bonds, is nearly the largest it has ever been and includes many "fallen angels" (former investment-grade corporations that were downgraded to junk), such as Ford and Occidental Petroleum.

HOW TO INVEST: High-yield managers calculate that even if defaults rise to 3% or 4% and recovery rates on the debts are only 40%, they can still generate a positive return. That is because yields are relatively high, and the average junk bond sells at only 88 cents on the dollar. "Bonds are trading at discounts even if they are issued by fundamentally solid companies," says Breazzano.

Of course, it also helps if you have a seasoned risk manager like Carl Kaufman, who has steered **OSTERWEIS STRATEGIC INCOME** (OSTIX, 7.3%) since 2002. Kaufman says the fund's duration is 2.5, compared with 4.1 for the high-yield market overall, and that he is avoiding cyclical commodities businesses whose fortunes tend to rise and fall with the economy. Instead, he's searching for companies that have pricing power and a strong competitive position. "We're looking for business models that don't depend on the economy being super strong and whose managements understand the importance of a strong balance sheet in times of stress," he says.

PGIM HIGH YIELD (PHYZX, 9.9%) makes the most of an army of 50 credit analysts, many of them focused on specific industries, according to Robert Cignarella, head of U.S. high yield at PGIM Fixed Income (PGIM is the asset-management division of Prudential Financial). Cignarella says the fund (duration: 3.8) has an overweight position in the bonds of housing and building-product firms because there is a serious housing shortage. He also likes electric-power generators due to strong pricing power and under-investment in power that will need to be addressed to fuel the electrification of the country's auto fleet.

For something slightly tamer, consider **VANGUARD HIGH-YIELD CORPORATE** (VWEHX, 7%), which focuses on higher-rated junk bonds. A member of the Kiplinger 25, the fund holds a basket of nearly 800 bonds, more than 80% of them rated B or BB. The fund has a duration of 3.9.

4%–7% | DIVIDEND STOCKS

Stocks that pay dividends play an important income role in a diversified portfolio. Unlike fixed-income investments such as Treasuries and corporate bonds, healthy corporations can boost dividend distributions annually, which is a potent method to maintain purchasing power in an inflationary environment such as we have today.

THE RISKS: Stocks tend to be much more volatile than high-grade bonds. Very high yields on stocks can be an indication of poor growth prospects or a business in distress. "Don't go for the highest-yielding securities, because they will be challenged," says Altfest. Instead, look for dividend growth, which Simeon Hyman, global investment strategist at ProShares, calls "an elegant proof of quality."

HOW TO INVEST: Not surprisingly, some bargains have emerged in banks and other financial institutions in the wake of some recent highly publicized bank failures. "We're in an environment where people shoot first and ask questions later," says John Buckingham, editor of *The Prudent Speculator*. He spots value in **FIFTH THIRD BANCORP (FITB, $27, 5.0%)**, a conservatively managed Midwest bank with low levels of uninsured deposits and virtually no held-to-maturity securities on its balance sheet (both issues helped to topple Silicon Valley and Signature banks).

The portfolio managers at Tweedy, Browne—dyed-in-the-wool value investors—also see bargains in the sector. They like **TRUIST FINANCIAL (TFC, $34, 6.1%)**, a Charlotte, N.C.–based super-regional bank, for its strong footprint in the buoyant Southeast economy and diversified earnings stream. Jay Hatfield, chief executive of Infrastructure Capital Management, fancies **PRUDENTIAL FINANCIAL (PRU, $83, 6.1%)**, a large, diversified insurance company that sells products such as life insurance and annuities. "It's getting dragged down with banking stocks, even though it's not a bank and its fundamentals are good-to-great," he says.

VERIZON COMMUNICATIONS (VZ, $39, 6.8%), the largest wireless carrier, offers a juicy yield and sells at just eight times estimated earnings. It's a member of the Kiplinger Dividend 15, our favorite dividend stocks. If you prefer to invest in a diversified basket of dividend stocks, consider **SCHWAB US DIVIDEND EQUITY (SCHD, $73, 3.5%)**, an exchange-traded fund (and a member of the Kiplinger ETF 20) that holds 100 stocks (top positions include Abbvie and PepsiCo) and has a stellar track record of boosting dividends each year.

Finally, consider overseas stocks, which offer significantly higher yields than do their counterparts at home, according to Tweedy, Browne's Robert Wyckoff. One of Tweedy's picks is **DEUTSCHE POST (DPSGY, $47, 4.1%)**, which owns DHL, one of the top parcel-shipping and third-party logistics outfits worldwide. For a diversified foreign portfolio, the U.S. Schwab fund has a cousin, **SCHWAB INTERNATIONAL DIVIDEND EQUITY (SCHY, $24, 4.4%)**. Top holdings include Unilever and Deutsche Post.

3%–7% | REAL ESTATE INVESTMENT TRUSTS

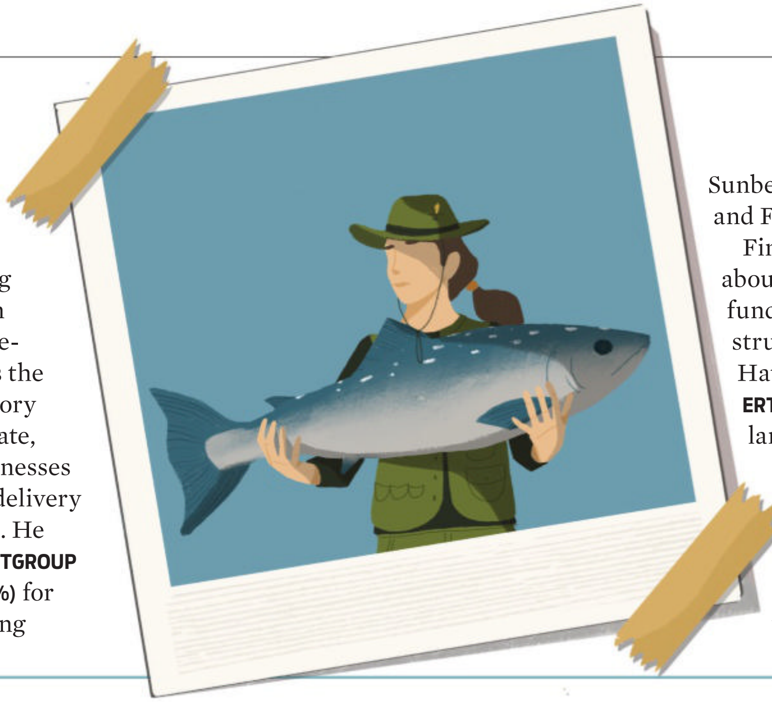
Because REITs are required to distribute at least 90% of their taxable income each year, they offer relatively high yields. REITs can also offer good protection against inflation because operators are able to raise rents as leases expire.

THE RISKS: REITs are vulnerable to rising interest rates. Higher rates can stress property borrowers as well as lead to higher yields for bonds, which some investors see as yield competition for REITs. In addition, the rise of remote and hybrid work is hammering demand for urban office space.

HOW TO INVEST: REITs are a diverse industry, and portfolio managers find many of the best values in niches or sectors with strong, long-term growth drivers. For instance, a shortage of single-family homes combined with high mortgage rates and poor affordability is a boon for the housing rental market. This setup drew Jeff Kolitch, manager of Baron Real Estate Income, to **INVITATION HOMES (INVH, $31, 3.4%)**, the largest owner and operator of single-family rental homes in the country, with more than 80,000 units. Kolitch also likes the economics of self-storage REITs, which tend to be recession-resistant and have high cash flows, low capital spending needs and "sticky" tenants with short leases. **EXTRA SPACE STORAGE (EXR, $163, 4.1%)** is an example.

Health care facilities are benefiting from the aging of society and a steady increase in health spending. Accordingly, Kolitch recommends **WELLTOWER (WELL, $72, 3.4%)**, which operates outpatient medical facilities and senior housing, a strong growth sector. Mathew Kirschner, a U.S. real estate portfolio manager at Cohen & Steers, is attracted to **HEALTHCARE REALTY TRUST (HR, $19, 6.6%)**, which owns and operates medical offices, most of which are affiliated with hospital systems.

Industrial REITs are similarly benefiting from robust, long-term demand drivers. “Warehouse space is perhaps the most compelling category of commercial real estate, as consumers and businesses seek faster and faster delivery of goods,” says Kolitch. He particularly favors **EASTGROUP PROPERTIES (EGP, $165, 3.1%)** for its focus on fast-growing



Sunbelt states, including Texas and Florida.

Finally, despite growing worries about a potential recession, some fund managers, including Infrastructure Capital Management’s Hatfield, are fond of **SIMON PROPERTIES (SPG, $112, 6.7%)**, the nation’s largest shopping-mall owner. “The notion that the mall is dead is incorrect,” says Hatfield. “People do not want to be at home all day—particularly if they worked all day at home.”

6%–10% | MIDSTREAM ENERGY INFRASTRUCTURE

Midstream companies process, store and transport oil and natural gas around the country through pipelines. They are positioned between upstream companies (energy producers) and downstream firms, which produce finished goods such as liquefied natural gas (LNG).

Operating as a kind of toll road, pipelines have several advantages. For political and regulatory reasons, it’s very difficult to build a new pipeline today, and that shelters the incumbents from new competition, says Simon Lack, comanager of Catalyst Energy Infrastructure Fund. In addition, pipeline operators can pass on higher costs to customers because long-term contracts typically contain inflation escalators. Finally, the U.S. is a competitive producer of natural gas and is boosting output and exports to places such as Europe and China.

THE RISKS: The main risk is a recession, which would depress energy consumption and thus shrink the volumes moved through energy infrastructure.

HOW TO INVEST: Yields average 6% to 7% in the sector, but Lack notes that free-cash-flow yields (free cash flow per share divided by share price) are nearly double that, and he projects that those flows will grow in the mid-single-digit percentages this year. Both corporations and master limited partnerships operate in the sector. Yields tend to be higher for MLPs, which typically distribute most of their income each year and issue K-1 forms to limited partners, which can be a nuisance at tax time.

Dan Genter, president of RNC Genter Capital Management, likes **ENBRIDGE (ENB, $38, 6.9%)**, a conservatively run Canadian energy infrastructure giant that moves about 30% of the crude oil produced in North America and 20% of the natural gas consumed in the U.S. Lack is drawn to outfits with strong natural gas franchises, including **WILLIAMS COMPANIES (WMB, $30, 6.1%)**, which operates an “irreplaceable” pipeline network and, like Enbridge, is registered as a corporation. For a higher yield, consider **ENERGY TRANSFER LP (ET, $12, 9.8%)**, an MLP that is constructing a large LNG export facility in Lake Charles, La., that will convert natural gas to LNG for shipment overseas.

For a basket of energy-infrastructure businesses, consider **PACER AMERICAN ENERGY INDEPENDENCE (USAI, $26, 5.5%)** or Lack’s actively managed **CATALYST ENERGY INFRASTRUCTURE (MLXIX, 7.3%)**. Both funds hold American and Canadian stocks and, by keeping the MLP weighting to less than 25%, avoid the need to issue K-1s.

4%–11% | CLOSED-END FUNDS

Closed-end funds list (and are traded) on an exchange, raise capital through an initial public offering, then invest the money in stocks, bonds and other financial assets. A closed-end fund’s share price fluctuates according to investor demand and frequently trades at a discount or premium to the per-share value of the fund’s underlying assets, or net asset value.

THE RISKS: Most closed-end funds use borrowed money, or leverage, to purchase portfolio assets. Leverage is a double-edged sword, augmenting price returns in bull markets but amplifying losses in NAV when markets decline. Additionally, when interest rates rise—as they have over the past year—fund borrowing costs increase.

HOW TO INVEST: Roughly one-third of closed-end funds invest in municipal bonds, one-third invest in taxable bonds, and one-third invest in stocks. Steve O'Neill, a portfolio manager at RiverNorth Capital Management, says wide discounts have emerged due to market volatility in stocks and bonds. "It's a very good time to be hunting in the closed-end fund market," he says.

Munis have always been a staple of the industry because leverage can pump up tax-free yields. Because high-grade munis are low-risk assets, fund managers can apply more leverage than they can with volatile asset classes, such as stocks, O'Neill says, adding that unusually large discounts have created attractive opportunities.

John Cole Scott, chief investment officer of Closed-End Fund Advisors, recommends **NUVEEN QUALITY MUNICIPAL INCOME** (NAD, $12, 4.1%), which trades at a 13% discount to NAV (that is, 87 cents for a dollar of assets) and has a 39% leverage ratio (borrowed money as a percentage of assets). The tax-equivalent yield for someone in the 24% federal bracket is 5.4%. Nuveen is one of the largest and oldest managers of muni bond funds.

Higher yields are on offer in taxable high-yield funds. Scott likes **ARES DYNAMIC CREDIT ALLOCATION** (ARDC, $12, 10.8%), which sells at a 13% discount and employs 35% leverage. The fund holds principally high-yield bonds and bank loans, with top issuers including Uber, MGM Resorts and American Airlines.

If you like the idea of buying a dollar of assets at a steep discount but want to avoid the risk of leverage, Scott suggests **ABRDN GLOBAL INFRASTRUCTURE INCOME** (ASGI, $18, 8.0%), which has no leverage, trades at a 15% discount to NAV and holds a global portfolio of infrastructure-related stocks, an asset class that tends to perform well in inflationary environments.

11%–12% | BUSINESS DEVELOPMENT COMPANIES

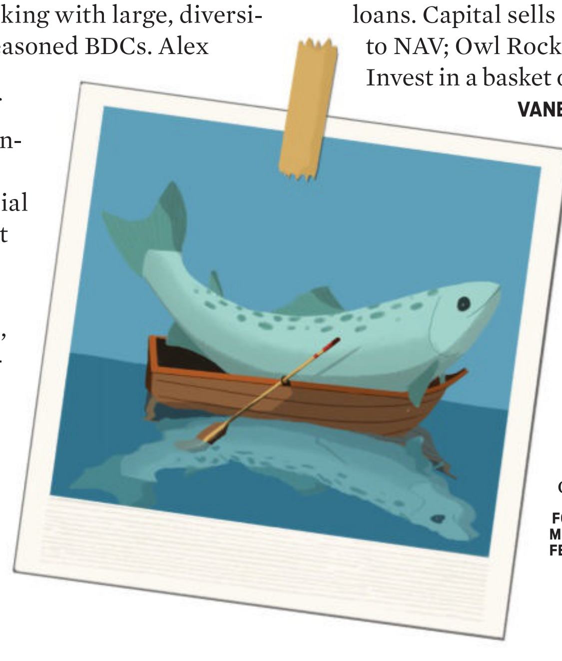
BDCs were created in the 1980s by Congress with a mandate to help finance small and midsize private firms that are typically too small to access bank funding. BDCs are like closed-end funds in that they raise a pool of capital and list on a stock exchange (there are also many unlisted BDCs); they borrow money to leverage portfolios; and they can trade at a premium or discount to net asset value, which is reappraised quarterly. As with REITs, BDCs are pass-through entities required to distribute at least 90% of taxable income each year. Because this is ordinary income (that is, not qualified dividend income eligible for lower tax rates), tax-deferred retirement accounts are a natural home for the assets.

Most BDC loans to small private firms are secured, first- or second-lien variable-rate loans of $25 million or less, with interest rates that are adjusted upward when lending rates rise. Hence, BDCs offer juicy yields in today's high-rate environment. "BDCs are one of the few ways for non-institutional investors to access private credit," says Fran Rodilosso, head of fixed-income ETF portfolio management at VanEck. Investors buy them for income, not for growth.

THE RISKS: Because these are private high-yield loans with a risk of default (particularly during a recession), they are not for the faint of heart. Leverage increases the volatility of BDC prices.

HOW TO INVEST: Due to the inherent risk of leveraged, floating-rate private credit, RiverNorth's O'Neill recommends sticking with large, diversified and seasoned BDCs. Alex Seleznev, director of wealth management and financial planning at Councilor, Buchanan & Mitchell, is comfortable holding **ARES CAPITAL** (ARCC, $18, 10.5%). It's the largest firm in the business, with a $22 billion portfolio of several hundred loans with broad geographic and industry diversification. Ares trades at a 1% discount to NAV and has a leverage ratio of 55%, which is about average.

Scott, of Closed-End Fund Advisors, recommends **CAPITAL SOUTHWEST CORP.** (CSWC, $18, 11.9%), the oldest BDC, and **OWL ROCK CAPITAL** (ORCC, $13, 10.5%). Both have leverage ratios of just over 50% and predominantly hold senior secured loans. Capital sells at a 9% premium to NAV; Owl Rock, a 16% discount. Invest in a basket of BDCs with **VANECK BDC INCOME** (BIZD, $15, 10.8%). The ETF tracks a market-weighted, concentrated BDC index—the top three holdings, which include Ares and Owl Rock, account for 45% of assets. ■



FOR QUESTIONS OR COMMENTS, SEND AN E-MAIL TO FEEDBACK@KIPLINGER.COM.

THINKING SMALL

It's Prime Time for Small-Company Stocks

They're cheap, and profits are rising. If you wait until the economy is strong, you'll miss the best opportunities.

BY NELLIE S. HUANG

Small-company stocks are often the canaries in the market's coal mine. Typically defined as stocks with a market value of less than $10 billion, their prices usually peak and then decline before large-company stock prices do in anticipation of a top in the economic cycle or a rise in interest rates. Similarly, "they tend to outperform early, when it seems like the worst is behind us," says Sam Stovall, chief investment strategist at CFRA Research.

Lately, the canaries have been quite chirpy. Over the past six months, the Russell 2000, an index of small-cap stocks, gained a robust 9.1%. It led the S&P 500 index for part of that stretch, a good sign, given that the Russell has lagged the big-company benchmark in seven of the past 10 calendar years. (Returns and data are through March 31, unless otherwise noted.)

No one knows, of course, whether that trend will continue. Uncertainty reigns about when the Federal Reserve will pause its cycle of interest rate hikes and what kind of recession, if any, the economy may experience. But you have plenty of other reasons to give small-company stocks a look now.

For starters, they're cheaper than they've been in decades. Compared with the S&P 500, the S&P SmallCap 600 index currently trades at a 36% discount, in terms of price-earnings multiples based on estimated earnings for the year ahead. That P/E is also a 22% discount to small caps' average P/E since 2005. Large caps, by contrast, trade at a 16% premium to their average P/E since 2005.

Analysts have a brighter outlook for small-cap earnings growth than for the rest of the market, too. Although small-company stocks' earnings growth is "due to underwhelm" this year, says Stovall, it is forecast to exceed that of large-size firms next year. Analysts expect small companies' earnings to climb by 19% in 2024; mid caps' earnings should rise by 14%. Large-company stocks' earnings growth is likely to trail in 2024, with a predicted jump of 12.5%.

And a wobbly economy means now is a prime time to buy stakes in small companies, say some experts. History shows that small-cap stocks rally before an economic rebound is clearly under way. Thus, the current uncertain economic environment makes for a "highly opportune time" to invest in small caps for the long run, according to a recent report from the small-company stock specialists at investment firm Royce & Associates.

FOCUS ON QUALITY

High-quality stocks—firms that generate steady cash flow and boast a clean balance sheet and rising earnings, for instance—can provide some resilience in a rocky market. Says Sebastien Page, head of T. Rowe Price's asset allocation steering committee: "There are opportunities in small caps, if you look at the quality segment, to lean in and play offense."

Buying shares in individual stocks is one way to go. But there are caveats: Small-company stocks tend to be more volatile than large stocks. A diversified portfolio of hundreds of small-cap stocks can smooth out the ride some, but that's hard to build on your own.

With that in mind, we found seven funds with a quality tilt that make it easy to boost your exposure to small-company stocks. Though stock prices may get worse this year before they get better, "they can turn around quickly, too," says Phillip Cook, a co-manager of SouthernSun Small Cap fund. "If you don't get your ducks in a row now, you won't benefit."

AVANTIS U.S. SMALL CAP VALUE ETF. Only highly profitable small companies trading at a bargain price are considered for this low-cost, actively managed exchange-traded fund, run by four managers. Profitability and a low price, says chief investment officer Philip McInnis, are "good proxies" for expected return rates. "If a company is cheap with high profits," adds comanager Mitchell Firestein, "it's going to generate a higher expected return."

Ryder System, best known for rental trucks, sits at the top of the portfolio, which means the managers consider it the most attractive stock based on the fund's two main criteria: a low price-to-book-value ratio and solid profitability. (Book value is assets minus liabilities.) "I think about the ideal stock the way Warren Buffett does," says Firestein. "We want to buy wonderful companies at fair prices, not fair companies at wonderful prices."

The process has delivered solid results since the ETF launched in September 2019, returning 13.6% annualized. That walloped the two major

small-company benchmarks, the S&P SmallCap 600 and the Russell 2000.

DIMENSIONAL U.S. SMALL CAP VALUE ETF. At Dimensional Fund Advisors, the investment firm better known for its DFA mutual funds, any company in the bottom 10% of the U.S. stock market is considered small. Within that universe, the managers ferret out the firms that are profitable and that trade at a low price-to-book-value ratio—a "fairly sticky measure that moves, but gradually," says Joe Hohn, a senior portfolio manager. That's in contrast he says, to P/Es, which can be volatile.

The process yields a portfolio of 900-odd stocks, with no single stock accounting for more than 1% of assets. "Diversification is the only free lunch you've got" in the investing world, says Hohn, and a portfolio of hundreds of stocks shields the fund from some risk. Dimensional funds are often considered "index-enhanced" funds but, Hohn says, "we are active managers."

The low-cost ETF has a short track record—it just celebrated its one-year anniversary. Over that period, its 9.0% return beat 92% of its peers (funds that invest in small-company stocks trading at a value). But the ETF uses the same strategy as the decades-old mutual fund DFA U.S. Small Cap Value, available only through certain advisers. Over the past 10 years, the mutual fund's 8.5% annualized return ranks among the top 27% of its peers. Though short-term returns may vary between the mutual fund and the ETF, over the long term, Hohn says, the two funds should have similar results.

ISHARES CORE S&P SMALL-CAP ETF. This fund, a member of our Kiplinger ETF 20 list of favorite ETFs (and our favorite small-cap ETF), tracks the S&P SmallCap 600 index. That's our preferred benchmark of small-company stocks, too, in part because it skews toward higher-quality firms—companies must have posted profits for at least the past 12 months to be considered for inclusion in the index. The Russell 2000 does not have any earnings criteria (only size matters), and that, in part, hurt its performance in 2022. The SmallCap 600's profit tilt may have made a difference over the long haul, too. Over the past decade, the ETF's 9.8% annualized return beat the Russell 2000 by an average of 1.8 percentage points per year. The fund's low, 0.06% expense ratio is a draw, too.

MESIROW SMALL COMPANY. At Mesirow, profits matter—or profitability expected within the next 12 to 18 months. Price matters, too. Plus, prospective stocks must have catalysts to power earnings and cash flow growth over the next year or so. "We marry those considerations with top-down trends and themes," such as the growing popularity of electric vehicles, says Leo Harmon, co-lead manager of the fund with Kathryn Vorisek and two comanagers. The combination of a promising stock and a favorable trend is like finding "a good house in a good neighborhood," he says.

Fund holdings include Gentherm, which makes climate-control systems for cars and electric vehicles (think heated seats and the like). Another favorite, Astec Industries, designs and makes equipment and components for road building and will benefit from the Bipartisan Infrastructure Law enacted in 2021.

ILLUSTRATION BY HUAN TRAN

Though Mesirow, a Chicago-based investment firm, has been around for decades, the fund is just four years old. Its 25.7% three-year annualized return beat 90% of its peers (small blend funds, which hold stocks with a mix of growth and value traits). Prior to managing this fund, Vorisek and Harmon ran small-cap strategies at Fiduciary Management Associates, a fund firm that Mesirow acquired in 2016.

OBERWEIS MICRO-CAP and **OBERWEIS SMALL-CAP OPPORTUNITIES.** These growth funds debuted in the mid 1990s but shifted strategy in 2015, when Kenneth Farsalas became lead manager. He ditched the funds' focus on stocks with fast-growing sales and earnings to concentrate on a behavioral finance quirk called post-earnings announcement drift, he says. "Investors tend to underreact to earnings surprises, specifically when those surprises are caused by big changes in the company."

Farsalas, along with two analysts and two traders, exploits the trend by closing in on firms that have reported earnings that beat analysts' expectations and buys stakes only in those with a solid catalyst to propel earnings further—a new product, new executives shaking things up, or new regulations that favor its business. Their interest is piqued "if there's a positive fundamental change and we think the business is cheap" based on a variety of price multiples relative to the firm's history and to competitors, he says. But if the surprise was driven by a lower tax rate, say, or a one-time sale of an asset, they generally pass.

A current favorite in the Small-Cap Opportunities fund is semiconductor-equipment company Aehr Test Systems. Farsalas says its sector is poised to turn around. The firm makes systems used to test newly manufactured semiconductors and will be "a direct beneficiary of the electric-vehicle boom," he says, because it is the leader in testing silicon carbide chips for EVs.

The funds' investment approach results in what Farsalas calls "aggressive" portfolios. Volatility is above average at both funds, but so are the long-term results. Micro-Cap has returned 16.9% annualized since Farsalas took over. It tends to be even more volatile than its small-cap fund sibling, so keep any exposure to a small percentage of your total stock holdings. Small-Cap Opportunities has gained 13.7% annualized since Farsalas took over. The S&P SmallCap 600 index rose 8.3% annualized over the same period; the Russell 2000, 6.4%.

Farsalas says his focus on profits helped both funds hold up better than the Russell 2000 index in 2022 because the fund doesn't hold shares in non-earning firms, such as burgeoning biotech companies. It avoids real estate investment trusts and utilities, too. "It's an urban legend that small- and micro-cap companies aren't high quality. Plenty of small- and micro-cap companies have real earnings, generate real cash flow and have good balance sheets," he says.

PACER U.S. SMALL CAP CASH COWS 100 ETF. This fund's objective is to invest in the most-profitable small companies. To do so, it holds the 100 firms in the S&P SmallCap 600 index with the highest free-cash-flow yield—the ratio of free cash flow (cash left after expenses and investments to run or expand the business) to a firm's enterprise value (basically, the price you'd pay to buy the company today, taking into account its cash on hand and debt). The index-based ETF is rebalanced quarterly.

A focus on free-cash-flow yield, as opposed to the price-to-book-value ratio (a traditional value measure), allows the fund to include firms that are low on real assets but loaded with intangible assets—ones you "can't see, touch, feel or put a price tag on," such as health care companies with drug patents, says Sean O'Hara, president of Pacer ETFs Distributors.

The ETF didn't have a great 2022; it lagged 88% of its peers (small value funds). But its three- and five-year records are smashing, and since the start of 2023, it has outpaced 94% of similar funds, with a 6.5% return. Top holdings include Encore Wire, a maker of electrical building wire and cable, and Asbury Automotive Group, a car-dealership company. ■

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

BIG POTENTIAL

7 SMALL CAP FUNDS TO CONSIDER NOW

Small-company stocks can be challenging to buy on your own. The funds below provide good diversification and have strong track records.

Mutual fund	Symbol	Annualized total return 1 yr.	Annualized total return 3 yrs.	Expense ratio
Avantis U.S. Small Cap Value ETF	AVUV	–5.4%	35.7%	0.25%
Dimensional U.S. Small Cap Value ETF	DFSV	–2.1	—	0.31
iShares Core S&P Small-Cap ETF	IJR	–8.9	21.6	0.06
Mesirow Small Company Investor	MSVVX	0.0	25.7	1.23
Oberweis Micro-Cap	OBMCX	6.5	42.2	1.48
Oberweis Small-Cap Opportunities	OBSOX	6.4	36.2	1.25
Pacer U.S. Small Cap Cash Cows 100 ETF	CALF	–3.7	31.7	0.59
RUSSELL 2000 INDEX		**–11.6%**	**17.5%**	
S&P SMALLCAP 600 INDEX		**–8.8**	**21.7**	

As of March 31, 2023. —Fund not in existence for entire period. SOURCE: Morningstar Direct.

INCOME INVESTING | Jeffrey R. Kosnett

A Crisis Delivers Opportunities

So much has happened since early March that I barely know where to start, except to assert that the recent bank failures and the subsequent Federal Reserve reaction offer scattered opportunities. To me, they are not ear-splitting alarms.

That is because these events stand to facilitate the breaks in inflation and interest rates that will reward (or already are rewarding) bond and income investors for courage and patience. Following the recent bank failures, FS Investments chief market strategist Troy Gayeski reset his odds that interest rates have peaked, or will soon peak, from a 50-50 chance to 80-20 or 90-10. He and others believe the bank mini crisis raises the chance of a (mild) recession in 2023 but lacks the power to turn financial and economic conditions truly ugly, 2008-style. Matt Kelley, head of stock research at KBW, a research firm covering banks and financial companies, now says of the markets, "We are starting to get our footing, but there is a lot to be determined."

I do not expect bank stocks and other credit investments to storm back 40% or even 100%, as many did post-crash 15 years ago. And the major stock indexes, such as the S&P 500, will be stuck in a holding pattern—at best—for a few months. But if your goals are to collect robust income and recover some more of 2022's principal losses, these are timely ideas.

Publicly traded private equity. This includes business development companies and corporations that lend to and own partial stakes in various businesses. Three familiar names are **ARES CAPITAL** (SYMBOL ARCC, $18, YIELD 10.5%), **CARLYLE GROUP** (CG, $31, 4.6%) and **FS KKR CAPITAL** (FSK, $19, 13.8%). If regular banks are required or decide on their own to tighten lending to start-ups and small companies, these lenders will have the picks of the litter. Their shares are inexpensive relative to their long-term average price-to-book ratio and other yardsticks; profits are strong; and dividends are well covered. (For more on BDCs and other fixed-income options, see "Angling for High Yields in Today's Market," on page 20.)

I DON'T EXPECT BANK STOCKS AND OTHER CREDIT INVESTMENTS TO STORM BACK. BUT IF YOUR GOAL IS TO COLLECT ROBUST INCOME, THERE ARE PLENTY OF TIMELY IDEAS.

Long-term investment-grade bonds. Though short-term interest rates might still rise a little, long-term yields have peaked and are in a downtrend. Since the Silicon Valley closure on March 10, **ISHARES IBOXX $ INVESTMENT GRADE CORPORATE BOND** (LQD, $109), a popular exchange-traded fund, reversed a decline and recovered 3.3%; the yield is just short of 4%. True believers should explore the category's discounted leveraged closed-end funds. **WESTERN ASSET PREMIER BOND** (WEA, $10) has slightly riskier assets than LQD but trades at a 9% discount to its net asset value (much wider than at the start of 2023) and distributes 7.8%. It is slowly chipping away at last year's 20% loss.

Bank preferred stocks. It is tempting to go all-in on banks' common shares after the entire category plunged, although the chance that regulators will end (or strongly discourage) stock buybacks and restrict dividend growth to build confidence in the capital base slowed the rebound rally of late March and early April. But the biggest banks' preferred shares are still out there at deep discounts to their $25 par value, priced to yield 5.5% to more than 6%. Because they behave more like long-term bonds, it is tough to resist something like Capital One's various preferreds that mature from 2024 to 2026 at around $18, for a current yield of 6.2% to 6.4%. There are five series—I, J, K, L and N. All are comparable. Just note that a preferred issue that is callable in 2023 or early 2024 might likely be redeemed as interest rates tumble. But buying at a discount to par value protects you.

Barbelling with cash. Finally, because the Fed will surely start thinking about cutting interest rates sooner rather than later, it makes enormous sense to grab 5% on CDs and to consider two-year maturities. A barbell is a combination of high-yielding cash equivalents and long-term debt. The strategy presently offers high income and a chance at capital appreciation. ■

JEFF KOSNETT IS EDITOR OF *KIPLINGER'S INVESTING FOR INCOME*. YOU CAN REACH HIM AT JEFF_KOSNETT@KIPLINGER.COM.

ILLUSTRATION BY PATRICK WELSH

THE KIPLINGER ETF 20 UPDATE

Small Banks Trip Up This Fund

IN AN EQUALLY WEIGHTED FUND, small stocks get as much play as their large-company cousins. That's worked out well over longer hauls for **INVESCO S&P 500 EQUAL WEIGHT FINANCIALS ETF**, which divides its assets evenly among each of the 73 financial stocks in the S&P 500 index. The fund beat the S&P 500 Financials sector index, which weights each stock by market value, over the past five, 10 and 15 years.

But recently, small stocks have lagged large caps. (To see why now might be a good time to consider small caps in general, see "It's Prime Time for Small-Company Stocks," on page 30.) The collapse of two regional banks accentuated this trend in the financial sector, says Aniket Ullal, head of ETF data and analytics at CFRA Research. And it triggered a bank-stock sell-off, particularly in shares of small, regional firms. Comerica shares are down 34% so far in 2023; Zions Bancorp, 38%. Both are in the Equal Weight Financials ETF.

All told, the fund has dropped 9.9% since the start of 2023. By contrast, the S&P 500 gained 7.5%. Over the past 12 months, the picture is dark, too. The fund's losses of nearly 19% lagged the nearly 15% loss in the S&P 500 Financials index over the same period.

Regulators acted quickly to right the situation, and strategists say the bank failures aren't a systemic problem; balance sheets are stronger than they were in 2008. But uncertainty is heightened. The crisis has elevated recession worries, and regulators may ask banks to pass even-more-stringent stress tests by way of increased capital and liquidity requirements.

That doesn't mean you should dump financial stocks. Most strategists recommend keeping a neutral exposure to the sector—roughly 13% of your U.S. stock portfolio. Analysts expect an average 2.1% decline in earnings for financial stocks in 2023 compared with the year before, but they look for a rebound of 11.4% in 2024. The sector trades at a price-earnings ratio of about 12, based on year-ahead earnings estimates, below the broad-market P/E of 18.

Newcomers join the sector. Another plus comes from recent S&P sector changes that added eight fintech firms, including Visa, Mastercard and PayPal, to the financials sector. (Invesco added these stocks to the Equal Weight Financials ETF in late March.) That helps, says CFRA's Ullal, in part because the fintechs are less correlated to traditional areas of finance such as banking and asset management. **NELLIE S. HUANG**

Nellie_Huang@kiplinger.com

Returns/Fees

KIPLINGER ETF 20: VITAL STATISTICS

			Annualized total return				
Core Stock Funds	**Symbol**	**Share price**	**1 yr.**	**3 yrs.**	**5 yrs.**	**Yield**	**Expense ratio**
iShares Core S&P 500	IVV	$411	–7.8%	18.6%	11.2%	1.6%	0.03%
iShares Core S&P Mid-Cap	IJH	250	–5.1	22.0	7.6	1.6	0.05
iShares Core S&P Small-Cap	IJR	97	–8.9	21.6	6.2	1.5	0.06
iShares MSCI USA ESG Select	SUSA	88	–7.8	18.5	11.3	1.5	0.25
Vanguard Total International Stock	VXUS	55	–4.6	12.7	2.5	2.9*	0.07
Dividend Stock Funds							
Schwab US Dividend Equity	SCHD	$73	–3.7%	21.7%	12.0%	3.7%	0.06%
Vanguard Dividend Appreciation	VIG	154	–3.0	16.4	10.9	1.9	0.06
WisdomTree Global ex-US Qual Div Growth	DNL	35	–7.5	13.1	6.5	2.0	0.42
Strategic Stock Funds							
Invesco Optm Yd Dvrs Cdty Stra No K1	PDBC	$14	–8.5%	28.1%	7.5%	3.1%	0.59%
Invesco S&P 500 Equal Weight Financials	RYF	50	–18.8	19.6	5.2	2.3	0.40
Invesco S&P 500 Equal Weight Health Care	RYH	292	–4.1	16.2	10.9	0.7	0.40
Invesco WilderHill Clean Energy	PBW	40	–35.3	17.0	12.4	0.0	0.62
Technology Select Sector SPDR	XLK	151	–3.9	24.5	19.5	0.9	0.10
Vanguard FTSE Europe	VGK	61	1.2	15.5	4.2	3.1*	0.11
Core Bond Funds							
Fidelity Total Bond	FBND	$46	–4.7%	-0.6%	1.7%	5.0%	0.36%
Invesco BulletShares 2026 Corp Bond	BSCQ	19	–1.5	1.3	3.0	5.2	0.10
SPDR DoubleLine Total Return Tactical	TOTL	41	–4.4	-1.8	0.3	5.1	0.55
Opportunistic Bond Funds							
BlackRock Ultra Short-Term Bond	ICSH	$50	2.6%	1.4%	1.8%	4.8%	0.08%
Invesco Senior Loan	BKLN	21	1.5	4.8	2.3	8.2	0.65
Vanguard Tax-Exempt Bond	VTEB	51	0.3	0.3	2.0	3.3	0.05
Indexes							
S&P 500 INDEX (LARGE U.S. STOCKS)			**–7.7%**	**18.6%**	**11.2%**	**1.7%**	
MSCI EAFE INDEX (FOREIGN STOCKS)			**–1.4**	**13.0**	**3.5**	**3.1**	
BLOOMBERG U.S. AGGREGATE BOND INDEX			**–4.8**	**-2.8**	**0.9**	**4.4**	

As of March 31. *12-month yield. SOURCES: Morningstar Direct, MSCI, S&P Dow Jones Indices.

STREET SMART | James K. Glassman

Bank Stocks Worth Betting On

COMMUNITY BANK STOCKS COULD FALL MORE, ESPECIALLY THOSE MOST EXPOSED TO COMMERCIAL REAL ESTATE. BUT SOME ARE BARGAINS.

Bankers have to contend with two big challenges. The first is credit risk. If the economy slides into a recession, borrowers may not be able to make payments on their loans. The second is interest rate risk. Rates can turn against banks in a lot of different ways. For one thing, short-term rates can rise more than long-term rates do, reducing the income that's generated from the difference between what a bank pays for deposits and what it earns from its loans. For another, as rates rise, the value of debt securities the bank had purchased at lower rates falls.

Usually, it's the first challenge that gets banks into trouble. That's what happened to them in 2008 as real estate collapsed. But now-infamous Silicon Valley Bank ran afoul of the second challenge. SVB was an unusual institution that held considerably more debt securities, such as government bonds, than it did loans ($120 billion worth of securities but just $74 billion in loans). The bank was also too focused on a single sector—technology companies and the venture capitalists that supported them—and it had vast amounts of demand deposits ($110 billion), which didn't require SVB to pay interest but could be pulled out instantly using an iPhone.

Because of the way bank accounting works, SVB did not have to take a hit to its profits as its bonds fell in value, but depositors learned of the problem and started demanding their money. Federal regulators intervened, guaranteeing all of SVB's deposits—even if they exceeded the $250,000 federal insurance limit, as the vast majority did. The intervention prevented SVB's bank run from becoming contagious.

The management of SVB made a classic mistake by mismatching short-term liabilities (those demand deposits) and long-term assets (such as debt being held to maturity with an average duration of 6.2 years). Most banks don't do such things.

In my view, SVB was a salutary warning to the whole banking sector—as well as to regulators, who were at fault for not recognizing sooner that the bank deserved extra scrutiny because it grew so fast (SVB quintupled in size in five years). The system itself is sound and is now getting even sounder, but there's no doubt that banks are going to tighten their lending requirements, which will further slow the economy.

The bigger risk. A much bigger worry than bank runs is bad debt, the first challenge I mentioned at the outset. Let's take as an example a typical bank: Glacier Bancorp, based in Montana. At the end of last year, it reported that it has $27 billion in assets, composed mainly of $13 billion in loans—$8 billion of which are for commercial real estate—and $10 billion in debt securities, mainly bundles of mortgages. This edifice of assets sits on top of about $3 billion of the bank's own capital, which is a higher ratio to assets than most banks have.

Even so, imagine if a severe recession were to strike and a lot of Glacier's borrowers defaulted on their loans while other borrowers got behind on payments. Glacier can seize real estate or other collateral, but the bank is going to have to take a big loss, depleting its capital. Regulators may demand that Glacier raise more, but that will be difficult in a recession.

I have gleaned a great deal of information from Glacier's annual report on Form 10-K to the Securities and Exchange Commission. But going through such forms is a lot of work, and some questions remain unanswered, such as whether the $172 million that Glacier has reserved for possible credit losses is enough. (It's impossible to say, because Glacier doesn't have to reveal the particulars of its loans to the public.)

There are many banks like Glacier that are heavily invested in commercial real estate, which became a troublesome sector after banks ramped up their lending throughout 2022—despite the fact that more employees are working remotely. As the *Washington Post* recently noted, "It seems as if every few days brings news of some big property going into default." Banks are adding to their loan-loss reserves for commercial loans in anticipation of a mild recession. At the very least, that means lower profits.

Smaller, community banks like Glacier are the backbone of the U.S. economy. Their managers tend to

ILLUSTRATION BY PATRICK WELSH

CHARLES TYRWHITT
JERMYN STREET LONDON
One Smart Investment
3 SHIRTS OR POLOS
$99
NORMALLY $297
PLUS FREE SHIPPING
USE OFFER CODE: INVEST
SHOP CONFIDENT – 6-MONTH GUARANTEE
CHARLESTYRWHITT.COM
OR SHOP IN ONE OF OUR STORES
This offer ends at 11:59PM (PST) on June 22nd, 2023. For other standard terms and conditions, please see our website.
PlanetMark
CO2 Neutral

know their customers personally and understand the local business environment. In the wake of the recent SVB fiasco, many investors found these banks guilty of crimes they did not commit. Because of the SVB scare, Invesco KBW Regional Banking, an exchange-traded fund that owns small- and mid-cap banks, fell 21% in March alone.

And community bank stocks could fall more, especially the ones most exposed to commercial real estate. Glacier lost half its value during the great financial crisis of 2008, and the continued lack of visibility into the business of these banks always makes me hesitate. But some bargains are compelling. Not Glacier, which is down only 16% from its high this year, but a bank like Phoenix-based **WESTERN ALLIANCE BANCORP**, which skidded from $80 at the beginning of February to $36 at the end of March. UBS Securities analyst Brody Preston recommends the stock despite a "relatively cautious view" of the community bank sector as a whole. (Stocks I like are in bold; data is as of March 31.)

SEVEN YEARS AGO, I RECOMMENDED JPMORGAN CHASE, BANK OF AMERICA, CITIGROUP AND WELLS FARGO. I STILL LIKE ALL FOUR.

Western Alliance trades at a price-earnings ratio, based on a consensus of analysts' earnings estimates for 2024, of just 3.6. Like most banks, it has losses in its securities portfolio because of higher interest rates, but they are small compared with the bank's capital, and the proportion of commercial real estate loans is less worrying than that of most other banks. The stock yields 4.1%.

Preston also recommends New York Community Banks, whose stock had dropped nearly 40% from its 2023 high. But the stock has since recovered nearly the entire loss—evidence of what can happen when investors come to their senses. Preston's third high-conviction buy is **WEBSTER FINANCIAL**, down about 30% from its February peak and trading at a P/E of 6. Webster, the third-largest holding of the Invesco ETF, is based in Stamford, Conn., and yields 4.1%.

Safer bets. Finally, we come to the Big Four, which hold $10 trillion in assets, compared with $3.5 trillion for the other 4,233 banks in the U.S. Seven years ago, the last time I wrote about banks for this column, I recommended all of them. They are, in order of size: **JPMORGAN CHASE**, **BANK OF AMERICA**, **CITIGROUP** and **WELLS FARGO**. The first two roughly doubled in price since my call. Citigroup was flat, and Wells Fargo, buffeted by a scandal, fell by about one-third. I still like all four, especially because they are classified as Systemically Important Financial Institutions and as such must undergo regular stress tests and keep high levels of capital as buffers against the two big challenges. They have attractive dividend yields, ranging from 3.1% to 4.4%.

In one way, these banks have all benefited from the SVB debacle as depositors left smaller banks for the shelter of the SIFIs, which are generally considered too big to fail. The Big Four make up about one-fourth of the assets of **FIDELITY SELECT BANKING**, a mutual fund with a good track record. The rest of the fund's holdings are in an array of well-chosen institutions, including **M&T BANK**, a favorite of mine with a dividend yield of 4.4%. Banks are heading into rough waters as the economy slows, but their stocks already reflect tougher times. While they can certainly get cheaper, now is a good time for careful shoppers to start buying. ■

BANK STOCKS

BARGAINS THAT BECKON

Bank shares have struggled as rates have risen and in the wake of a couple of high-profile failures. But the stocks and fund below are worth a look.

Company	Symbol	Price	Price-earnings ratio	Market value (billions)	Yield	Total return: Year-to-date	Total return: 3 yrs.‡
Bank of America	BAC	$29	8	$228.8	3.1%	−13.0%	13.4%
Citigroup	C	47	8	91.3	4.4	4.8	8.0
JPMorgan Chase	JPM	130	10	383.5	3.1	−2.1	16.3
M&T Bank	MTB	120	7	20.1	4.4	−16.7	8.9
Webster Financial	WBS	39	6	6.9	4.1	−15.9	24.5
Wells Fargo	WFC	37	8	141.2	3.2	−8.7	11.8
Western Alliance Bancorp	WAL	36	4	3.9	4.1	−39.7	8.7
Fund	**Symbol**			**Expense ratio**	**Yield**	**Year-to-date**	**3 yrs.‡**
Fidelity Select Banking	FSRBX			0.73%	3.2%*	−14.5%	17.1%
S&P 500 INDEX					**1.7%**	**7.5%**	**18.6%**

As of March 31. ‡Annualized return. *Avergage portfolio stock yield. 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 SECURITIES MENTIONED HERE, HE OWNS BANK OF AMERICA. YOU CAN REACH HIM AT JKGLASSMAN@GMAIL.COM.

THE KIPLINGER 25 UPDATE

Should You Stick With Commodities?

COMMODITIES FUNDS did their job in 2022, delivering relatively robust, positive returns in an inflationary environment, as stocks and bonds fell precipitously in tandem. Our favorite in this category, **TCW ENHANCED COMMODITY STRATEGY**, posted a 13.0% return in 2022, a perfect foil to the 13.0% loss in the Bloomberg U.S. Aggregate Bond index and well ahead of the 18.1% decline in the S&P 500 stock index.

But these funds, which invest in raw materials such as oil and wheat through futures contracts, are struggling this year. So far in 2023, TCW Enhanced Commodity Strategy has lost 4.4%, while both U.S. stocks and bonds have gained ground. "It's a challenging time," says fund comanager Stephen Kane. Though inflation is sticking around—at a 6% rate over the 12 months ending in February—prices for commodities have retreated from post-pandemic highs, and a recession would lower demand for raw goods.

Is it time to shed your commodities fund? If you bought it as a hedge for stocks, bonds and inflation, then no. When stocks or bonds zig, commodities usually zag. And "with inflation, you never know, it can surprise you," says Kane. TCW studies show that commodities are a better hedge for inflation than stocks, gold or even Treasury inflation-protected securities.

Recession worries. Commodity prices are still high relative to their average over the past five years, according to the World Bank. Mitigating circumstances—in particular, China's recent reopening, tight supply of certain raw goods and the ongoing war in Ukraine—may help offset the weight of recession worries on commodity prices over the coming year, say many strategists.

The four managers at TCW Enhanced Commodity Strategy aim to beat the Bloomberg Commodity index. They buy futures or other derivative securities tied to the index and back those trades up with high-quality, easily tradable short-term bonds, including corporate debt, asset- and mortgage-backed securities, and Treasuries. Since the fund launched in March 2011, it has outpaced the Commodity index in nine of the past 11 calendar years.

NELLIE S. HUANG

Nellie_Huang@kiplinger.com

KEY DATA FOR OUR MUTUAL FUND PICKS

Kiplinger 25 funds are no-load; you can buy them without sales charges. For more about the funds, visit kiplinger.com/links/kip25.

U.S. Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
DF Dent Midcap Growth	DFDMX	–12.7%	8.0%	10.9%	0.0%	0.85%
Dodge & Cox Stock	DODGX	–6.8	9.4	11.4	1.4	0.51
Fidelity Blue Chip Growth	FBGRX	–15.7	13.9	15.6	0.0	0.76
Heartland Mid Cap Value	HRMDX	–0.9	9.7	—	0.5	1.10
Mairs & Power Growth	MPGFX	–8.7	10.3	10.3	0.7	0.61
T. Rowe Price Dividend Growth	PRDGX	–3.8	11.4	11.9	1.1	0.62
T. Rowe Price QM US Sm-Cp Gro	PRDSX	–5.9	6.8	10.4	0.0	0.78
T. Rowe Price Small-Cap Value	PRSVX	–12.1	5.5	7.9	0.4	0.78
Primecap Odyssey Growth	POGRX	–4.6	6.6	12.0	0.5	0.66
Vanguard Equity-Income	VEIPX	–3.3	8.9	10.3	2.8	0.28

International Stock Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Baron Emerging Markets	BEXFX	–11.6%	–2.6%	2.9%	0.0%	1.33%
Brown Cap Mgmt Intl Sm Co	BCSVX	–9.5	5.5	—	0.0	1.31
Fidelity International Growth	FIGFX	–2.2	6.3	7.0	0.2	1.01
Janus Henderson Glbl Eq Inc	HFQTX	–2.1	3.2	4.8	3.8	1.02

Specialized Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Fidelity Select Health Care	FSPHX	–3.9%	10.3%	13.9%	0.0%	0.68%
T. Rowe Price Global Technology	PRGTX	–26.2	4.3	15.1	0.0	0.86
TCW Enhanced Comm Strategy	TGABX	–12.7	6.6	-0.4	3.8	0.75

Bond Funds	Symbol	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield	Expense ratio
Baird Aggregate Bond	BAGSX	–4.9%	0.9%	1.5%	4.2%	0.55%
Fidelity Interm Muni Income	FLTMX	0.9	2.0	2.0	3.1	0.35
Fidelity Strategic Income	FADMX	–3.8	2.1	2.8	5.6	0.68
T. Rowe Price Floating Rate	PRFRX	2.8	3.2	3.3	8.0	0.75
TIAA-CREF Core Impact Bond	TSBRX	–5.8	0.5	1.6	4.1	0.64
Vanguard Emerg Mkts Bond	VEMBX	–3.0	3.4	—	6.5	0.55
Vanguard High-Yield Corporate	VWEHX	–2.0	3.2	3.8	7.0	0.23
Vanguard Short-Term Inv-Grade	VFSTX	–0.3	1.5	1.5	4.9	0.20

Indexes	Annualized total return 1 yr.	5 yrs.	10 yrs.	Yield
S&P 500 INDEX	**–7.7%**	**11.2%**	**12.2%**	**1.7%**
RUSSELL 2000 INDEX*	**–11.6**	**4.7**	**8.0**	**1.4**
MSCI EAFE INDEX†	**–1.4**	**3.5**	**5.0**	**3.1**
MSCI EMERGING MARKETS INDEX	**–10.7**	**–0.9**	**2.0**	**3.3**
BLOOMBERG U.S. AGG BOND INDEX#	**–4.8**	**0.9**	**1.4**	**4.4**

As of March 31. *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. NA indicates not available.

MUTUAL FUND SPOTLIGHT

Gold Regains Its Luster

After a year of ups and downs, the precious metal pushes toward new highs.

THE PRICE OF GOLD HAS plunged and spiked so dramatically in the past year that investors likely feel woozy. Concerns about war in Europe helped push gold to just over $2,000 an ounce in March 2022. Then, rising interest rates eroded gold's appeal, and prices fell to the low $1,600s. Now, worries about the economy have pushed gold prices to $2,000 again, close to 2020's all-time high. The swings were even greater for gold-mining stocks, which are typically more volatile than the metal.

One fund that tries to serve investors leery of gold's volatility is **FIRST EAGLE GOLD**, which manages more than $2 billion in assets. The fund's managers balance a select list of about 20 stocks with holdings in gold and silver bullion. In 2022, the fund lost just 1.6% when precious-metals mutual funds lost nearly 15%, on average. It also edged out the 10.8% average gain for its category in the first quarter of 2023. As a result, First Eagle's five-year annualized return of 10.1% puts it in the top 20% of the category.

"Gold acts as a potential safe haven" that has a low correlation with stock market movements, says comanager Thomas Kertsos. That means gold can have a place in a well-diversified portfolio, but it's best kept to a small portion of overall holdings. Conflicting signals from the Federal Reserve about inflation and interest rates portend more volatility for gold in 2023, Kertsos warns.

Kertsos and associate portfolio manager Max Belmont try to dampen volatility by focusing on low-cost miners and firms that can prosper in any economy. They zero in on factors such as a company's cost of producing an ounce of gold, debt level and reserves, says Belmont.

A different kind of streaming. First Eagle has stakes in miners such as Newmont and Barrick Gold, but its top holding is Wheaton Precious Metals, which funds miners in return for a share of their production, a fairly stable niche called streaming. Wheaton has plenty of cash and long-term contracts, promising royalties for the future, says Belmont.

The fund charges a load of up to 5% but is available without sales charges on platforms such as Schwab and E*Trade. Its expense ratio is 1.19%. **KIM CLARK**
Kim.Clark@futurenet.com

GOLD FUNDS

Ranked by year-to-date returns

Rank/Name	Symbol	Annualized Total return YTD	5 yrs.	Max. sales charge	Exp. ratio
1. EuroPac Gold A	EPGFX	14.2%	6.6%	4.50%	1.40%
2. Allspring Precious Metals A	EKWAX	12.9	9.1	5.75	1.09
3. OCM Gold Investor	OCMGX	11.8	11.3	4.50[S]	2.19
4. USAA Precious Metals and Minerals	USAGX	11.8	8.2	none	1.12
5. American Century Global Gold Inv	BGEIX	11.6	7.0	none	0.66
6. Fidelity Select Gold	FSAGX	11.6	7.1	none	0.76
7. Sprott Gold Equity Investor	SGDLX	10.9	6.3	2.00[r]	1.41
8. First Eagle Gold A	SGGDX	10.9	10.1	5.00	1.19
9. Invesco Gold & Special Minerals A	OPGSX	10.4	11.0	5.50	1.05
10. VanEck International Investors Gold	INIVX	10.3	7.4	5.75	1.34
S&P 500 INDEX		7.5%	11.2%		
CATEGORY AVERAGE		10.8	8.5		

[r]Redemption fee. [S]Also charges a redemption fee.

20 LARGEST STOCK AND BOND MUTUAL FUNDS

Funds are ranked by asset size.

STOCK MUTUAL FUNDS

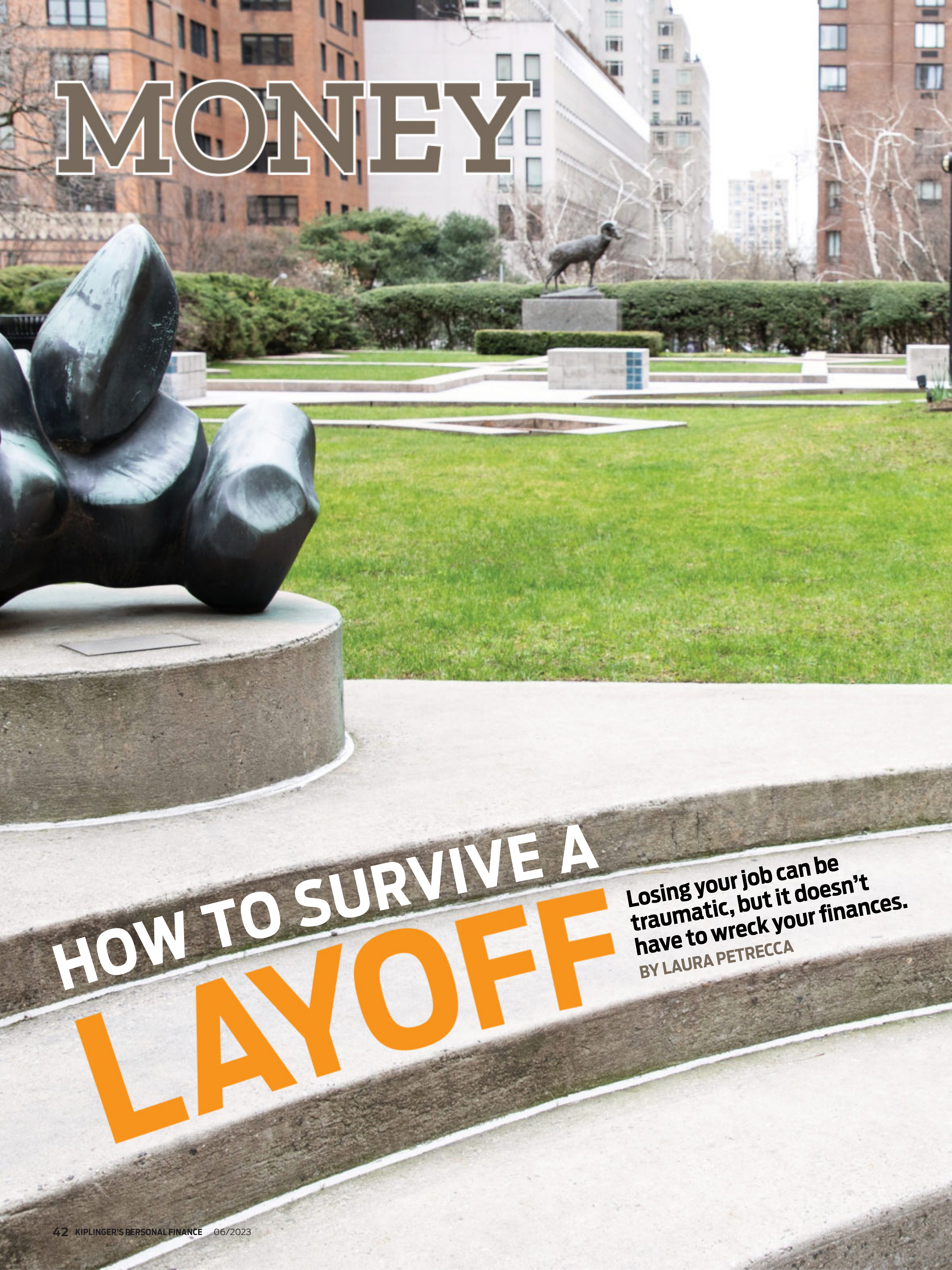
Rank/Name	Symbol	Assets† (billions)	Annualized total return 1 yr.	5 yrs.	Max. sales charge
1. Vanguard Total Stock Market Idx Adm	VTSAX	$938.2	–8.8%	10.4%	none
2. Vanguard 500 Index Adm	VFIAX	500.6	–7.8	11.1	none
3. Fidelity 500 Index@	FXAIX	365.0	–7.7	11.2	none
4. Vanguard Total Intl Stock Idx Adm	VTIAX	305.6	–4.6	2.5	none
5. American Growth Fund of America A	AGTHX	212.4	–13.7	8.9	5.75%
6. American Balanced A	ABALX	196.3	–5.9	6.4	5.75
7. American Washington Mutual A	AWSHX	151.2	–5.6	9.6	5.75
8. American EuroPacific Growth A	AEPGX	139.9	–3.6	2.9	5.75
9. American Income Fund of Amer A	AMECX	118.3	–4.4	6.0	5.75
10. American New Perspective A	ANWPX	114.1	–9.1	9.0	5.75
S&P 500 INDEX			–7.7%	11.2%	
MSCI EAFE INDEX			–1.4	3.5	

BOND MUTUAL FUNDS

Rank/Name	Symbol	Assets† (billions)	1-year total return	Current yield	Max. sales charge
1. Vanguard Total Bond Market Idx Adm	VBTLX	$197.1	–4.7%	4.1%	none
2. Pimco Income A	PONAX	116.3	–1.7	3.8	3.75%
3. Amer Funds Bond Fund of America A	ABNDX	76.2	–5.0	2.8	3.75
4. Vanguard Interm-Term Tx-Ex Inv	VWITX	68.7	0.8	3.1	none
5. Metropolitan West Total Return Bd M	MWTRX	63.9	–6.1	4.2	none
6. Dodge & Cox Income I	DODIX	61.2	–3.0	4.5	none
7. Vanguard Short-Term Inv-Grade Inv	VFSTX	59.0	–0.3	4.9	none
8. Fidelity US Bond Index	FXNAX	58.0	–4.8	4.2	none
9. Pimco Total Return A	PTTAX	55.2	–6.1	3.9	3.75
10. Lord Abbett Short Duration Income A	LALDX	48.7	–0.5	4.6	2.25
BLOOMBERG US AGGREGATE BOND INDEX			–4.8%	4.4%	
ICE BOFA AAA US MUNICIPAL SECURITIES INDEX			0.1	2.7	

As of March 31, 2023. @Only share class. Unless otherwise indicated, funds come in multiple share classes; we list the share class that is best suited for individual investors. †For all mutual fund share classes combined. MSCI EAFE tracks stocks in developed foreign markets. SOURCE: Morningstar Direct

MONEY



HOW TO SURVIVE A LAYOFF

Losing your job can be traumatic, but it doesn't have to wreck your finances.

BY LAURA PETRECCA

ELAINE CHEN MAXIMIZED HER COMPANY BENEFITS BEFORE SHE WAS LAID OFF.

PHOTO BY LESLIE HASSLER

Andy Wibbels's layoff story begins the same way as countless others: He was unexpectedly summoned to a brief meeting with his boss.

The Chicago-based digital marketing director had a sinking feeling about what was to come. Once he saw that a human resources representative was joining in, he knew he was about to join the ranks of the unemployed.

That same scenario has played out in phone calls, Zoom meetings and in-person conversations across the country. Although national unemployment remains at record lows, job cuts have come fast and furious as organizations prepare for a potential economic downturn. In January, overall layoffs rose to 1.7 million, the most since December 2020, according to the U.S. Department of Labor. Workers in certain sectors, such as technology, media and marketing, have been hit hardest, but industries across the board are cutting back.

A job loss can certainly be nerve-wracking. Wibbels, 48, who has since landed a new job, said he woke up every morning thinking about how to get his next position. But as he and many others have found, you can maintain control of your financial situation, even without a steady paycheck.

Although national unemployment remains at record lows, job cuts have come fast and furious as organizations prepare for a potential economic downturn.

A STEP-BY-STEP STRATEGY

Before you do anything else, take a deep breath. "Make sure you're not making any decisions when your adrenaline's running," says Alan Silver, a senior director at benefits consultancy WTW.

There will be many money-related decisions to come in the days, weeks and months ahead. The secret to success, he says, is to "approach them from a structured, reasoned way of thinking."

Get a clear understanding of your separation terms. Your package can vary depending on many factors, such as how long you've been with your employer and the role you held. In most cases, you'll get a written notice that describes any severance you'll receive and your health- and retirement-related benefit options.

If it's not clearly outlined in the paperwork, ask when your health benefits will end and the steps you need to take regarding your retirement accounts. Determine when you'll get your last paycheck, whether you'll be compensated for unused vacation time and what happens with any pending bonuses or commissions.

Once you get a solid grasp of the terms, capitalize on every benefit available before your coverage cuts off—from getting your annual physical to ordering 90-day prescriptions. If you opt for COBRA (see below), you'll have more time to take care of health needs.

After Elaine Chen's company gave her seven weeks' notice, the 54-year-old New York City marketing executive wanted to make the most of every benefit she had. Among her moves: ordering contact lenses while she had vision coverage and using an employer-sponsored legal service she had paid into to create a will.

That's the ideal attitude and action to take, says Silver. "Make sure you are not leaving money on the table," he says. "Look at every piece of paper in your agreement and think, *How can I best maximize what I'm getting out of this?*"

Bring out your inner negotiator. Remind your employer of your valuable contributions and honestly share any ongoing health needs. Increased severance and extended health care coverage are common requests, but you can ask for other benefits as well, such as outplacement assistance to help you find your next job.

"If you don't ask, you don't get," says Paul Fronstin, director of health benefits research at the Employee Benefit Research Institute.

Apply for unemployment benefits. The earlier you file, the sooner you can receive unemployment, assuming you qualify.

But be warned: Navigating your state's unemployment system can be a frustrating process, and it can take weeks to get your payments. You'll also need to continually certify your unemployed status to keep the money coming.

It can take some work to get into the system, but it's worth it to build up your cash reserves. Rules differ by state, but you can generally get a maximum of 26 weeks of benefits.

The amount you receive will vary due to several factors, including your earning history and the state you live in. For instance, the maximum weekly benefit in New Jersey is $830, while neighboring New York State pays out a maximum of $504 each week.

Keep in mind that unemployment benefits are taxable at the federal level, and some states tax benefits, too. Your state agency will likely give you the ability to have 10% of your benefits withheld for federal taxes. You can also choose to have 10% of your benefits withheld for federal taxes by filling out IRS Form W-4V (available at www.irs.gov) and providing it to the agency that's paying your benefits (don't send it to the IRS). If you opt not to have taxes withheld, make sure you've set aside enough money to cover taxes when you file your tax return.

A helpful resource is CareerOneStop.org, sponsored by the Department of Labor. It has unemployment-related frequently asked questions, as well as a search engine that will give you direct links to learn more about your state's unemployment program.

■ ANDY WIBBELS USED SOCIAL MEDIA TO SPREAD THE WORD THAT HE WAS LOOKING FOR A JOB.

Line up health insurance. After your layoff, nailing down health insurance can be one of the most confusing and expensive choices you'll need to make. If you haven't shopped for health insurance before, the options can feel overwhelming. But don't get bogged down in minor details, says the Employee Benefit Research Institute's Fronstin. Focus on what matters most for you and your family.

The Consolidated Omnibus Budget Reconciliation Act (COBRA) lets qualifying workers continue their existing coverage, generally for up to 18 months. You'll pay for your portion, what your employer previously covered and a small administrative fee, for a maximum of 102% of the total cost. The price tag may be worth it for those who have already met their deductible or want to remain with existing doctors or treatment plans, says Cheryl Fish-Parcham, director of access initiatives at consumer-health advocacy organization Families USA. Your former employer is required to give you at least 60 days from either the date you receive notice to elect COBRA or the date you would lose coverage (whichever is later) for you to enroll.

A less-costly option may be an Affordable Care Act plan. You'll need to apply within 60 days of losing your job-based coverage; you can access the marketplace through HealthCare.gov or your state's health care exchange. This will probably be considerably less expensive than COBRA, thanks to enhanced subsidies included in the 2022 Inflation Reduction Act. Those subsidies will be based on your estimated income for the year you're applying for coverage. "The premium tax credits have been more generous than they were years ago," says Fish-Parcham, "so they are really a good option for people at lots of different income levels." The Kaiser Family Foundation provides a calculator you can use to estimate premiums and subsidies at www.kff.org/interactive/subsidy-calculator.

Another option is to join your spouse or partner's plan if it provides family

PHOTO BY KEVIN SERNA

CHEN DID CONSULTING WORK TO GENERATE INCOME WHILE SHE CONDUCTED HER JOB SEARCH.

benefits. You typically have 30 days to enroll after your employer's coverage ends. If you're younger than 26, you can join a parent's plan.

Finally, you may be eligible for Medicare or Medicaid. Medicaid eligibility varies by state and can be based on monthly income. So you might qualify with the loss of a paycheck that comes with a layoff. If you're 65 or older, you should enroll in Medicare Part A (if you haven't done so already), Medicare Part B, which covers doctor visits, and a Medicare Part D prescription-drug plan to provide ongoing coverage and avoid late-enrollment penalties.

There are also some helpful online resources to explore as you navigate through all the health care choices. Healthcare.gov/screener helps you determine whether you are eligible for marketplace coverage. It also directs you to Medicaid if it appears you qualify for that coverage.

In addition, http://localhelp.healthcare.gov can help you find experts to answer your questions.

Make the most of health-related FSAs or HSAs. If you have a flexible spending account for health care, your employer will likely give you a specific period to submit qualified expenses that you incurred during your employment. If you're given advance notice of your layoff, embark on a health-related spending spree to use the full amount you elected to set aside. FSAStore.com has a comprehensive list of eligible purchases, including items such as sunscreen, heating pads and even pore-cleansing face wash.

Even if the layoff comes early in the year and you haven't made all your contributions, you can still get reimbursed for the entire amount you elected to set aside. However, if you have a balance in your account, you may have to forfeit it after you're laid off, which is why it's important to use up as much of the money as possible if you're given advance notice (or suspect that a layoff is coming).

If your employment ends the same day you're given notice, you may still be able to get reimbursed for eligible expenses you've incurred up to that date, but it will take some detective work. You'll need to look through online and printed receipts for qualifying purchases. If you don't have receipts on hand, at some retailers, such as Walmart, you can look up your in-store purchase receipts online. Gather those up, then submit them for reimbursement.

With a health savings account, the balance is yours to keep and use when needed. Unlike with an FSA, there's no time limit for reimbursements. As long as you have receipts for eligible expenses, you can wait months, years or even decades to get the money. Ordinarily, you can't use funds from an HSA to pay health insurance premiums—but you can if you're receiving unemployment benefits, and that includes paying premiums for insurance under COBRA.

If you can avoid it, though, it's best to let HSAs remain untouched for as many years as possible. The funds grow tax-free, and you don't pay taxes when you take money out as long as you use it for eligible medical expenses.

Check your retirement-savings plans. Your separation paperwork should spell out your next steps with your 401(k) and any pension plan, as well as provide contact information for you to get more details. If it's missing any of this, ask your HR representative for it.

You generally have four choices if your 401(k) balance is greater than $5,000. You can leave the money in your employer's account, roll it over to an IRA, move the funds to a new employer's plan (if your new employer's plan allows it) or withdraw your savings.

If you leave the account with your former employer, you won't be able to add money to it, and you're limited to the investment choices selected by the organization. Rolling over the funds to an IRA or your new employer's plan will enable you to avoid paying taxes and early-withdrawal penalties and allow your funds to continue to grow. If you go for the

PHOTO BY LESLIE HASSLER

last option—cashing out—you'll be subject to federal and possibly state income taxes on the balance and a 10% penalty if you're younger than 55.

If your 401(k) account holds less than $5,000, it's best to roll it over to an IRA or a 401(k) at your new job. Otherwise, your former employer is permitted to cash out your plan. Then you'll be on the hook for those federal and state income taxes and that potential 10% penalty.

REVISING YOUR BUDGET

This is your moment of truth. You'll need to determine how much runway you have before your cash runs out.

Set aside time to review your bank accounts and credit card bills. Examine your savings, spending and debt. Don't forget to factor in expenses your employer may have previously covered, such as a cell phone bill or gym membership. While you're doing your calculations, add in money coming from severance, unemployment or part-time work and think through how to slash nonessential spending. Once you've completed this exercise, create a budget.

Chen, who was on top of her finances before her layoff, determined an initial budget as well as a "tightened belt" budget backup in case she needs to save more.

After his layoff, Wibbels canceled upcoming travel and did more grocery shopping than ordering food in. When he and his husband went out with friends, they opted for more-affordable eateries, such as taco joints, instead of pricey restaurants.

"We downscaled everything," he says. "I also put alerts on my phone for when any sort of transaction hit our checking accounts so I could see what was going on all the time and be mindful of it."

If you have debt, contact your creditors to see if special arrangements, such as reduced interest or suspended payments, can be made. A credit counselor can also help you strategize on your best course of action. The National Foundation for Credit Counseling can connect you with counselors (visit www.nfcc.org or call 800-388-2227).

BACK TO WORK

THE SECRETS OF A SUCCESSFUL JOB SEARCH

After Andy Wibbels was laid off in September, he leaned into the power of community to turbocharge his job search. "I took about 24 hours to feel sorry for myself, then started messaging everybody I possibly could," he says.

Wibbels wrote up a pithy description of his skills and experience, which he posted on Instagram, Facebook and LinkedIn. The post clearly outlined how others could assist him, from connecting him with recruiters to sharing links to company job boards. He figured the more detailed he was, the better.

"I don't know what many of my friends do for their jobs. I don't know their industry or how they describe their position," says Wibbels, who now has a new job. "So I was super-specific. I said, 'I got laid off. Here's what I do. Here's how long I've been doing it. Here's my industry. If you have any positions at your company, message me. If you know any recruiters, let me know.' "

He admits he didn't tend to his network as much as he could have before the layoff, but that didn't stop him from reaching out. "People have empathy," he says. "They want to help you."

Through that outreach, he tapped into a key component of an effective job-search plan: asking others for help. In addition to sharing your availability and desire for work, here are some other effective tools and techniques to deploy.

Keep a regular schedule. Your day can quickly feel unstructured when you no longer have a meeting-filled calendar or pressing deadlines. It's now up to you to set a productive schedule. Pull out your calendar and slate specific times for updating your résumé, applying for jobs and networking. Don't forget to add in breaks when you can refuel and recharge.

Nail your pitch. Create a two-minute summary of your skills, successes and what you're looking for in your next role. Practice saying it aloud, so you have it down pat when anyone offers to help you with your search.

Reach out to recruiters. Ask industry peers for an e-mail introduction or to share the contact information of any recruiters they know. When you're on job boards, look for listings posted by those who identify themselves as a search professional or senior recruiter. Then connect with them and explain why you're an ideal candidate.

Sharpen your skills. From online courses to in-person classes, there are countless ways to build in-demand skills and glean job-search tips, such as how to ace an interview. For free and inexpensive material, check out your local library, Massive Open Online Courses (known as MOOCs) and educational seminars provided by industry associations.

Optimize your LinkedIn profile. Think of your profile as a personal and professional billboard. In the "About" section, tout your achievements and weave in keywords that recruiters will likely use when searching the platform. Consider using the LinkedIn feature that puts a frame around your profile photo that says #OpenToWork.

If you have LinkedIn's mobile app, you can take your self-branding even further. It lets you upload a 30-second video to your profile section, where you can verbally share what makes you special—and showcase your communication skills at the same time.

■ WIBBELS SET UP PHONE ALERTS TO TRACK HIS SPENDING WHILE HE WAS OUT OF WORK.

If you're having trouble making ends meet while you're looking for work, consider taking on a side hustle. Thanks to the booming gig economy, there are more ways to earn extra money than ever, often by using skills you've already developed. For example, both Chen and Wibbels secured consulting work after their layoffs. There's a plethora of opportunities that can suit your interests and schedule, from pet sitting to driving for a ride-share service like Uber to selling clothing and other goods on online shopping sites. To research potential part-time jobs, check out SideHusl.com, which provides information and reviews on more than 450 online platforms.

One caveat: In some cases, work-related earnings could lower your unemployment benefits.

Take the time to research your borrowing options in case you end up in a severe pinch. For example, a personal loan or home equity line of credit (HELOC) may offer a less expensive way to get cash to cover your expenses than a high-interest credit card (see "How to Survive an Economic Slowdown," Jan.).

Set aside time to review your bank accounts and credit card bills. Examine your savings, spending and debt. Don't forget to factor in expenses your employer may have previously covered.

You might be tempted to cash out money from your 401(k), but that should be a last resort—the taxes and 10% penalty (if you're younger than 55) on the amount you withdraw could reduce what you end up with by up to 40%. Using the retirement money now, unless it's absolutely necessary, also robs you of the future security these funds can provide.

KEEP THE FAITH

It's natural to feel shaken up after a layoff. There will be good days and not-so-good days as you move forward.

"If you have to panic, take a little time to panic," says Wibbels. "Then walk around the block and get back at it."

Despite the recent onslaught of layoffs, the overall job market remains strong. And although it may be hard to see at first, a job loss can be the impetus you need to find a role that truly fulfills you.

That's how Delia Visbal, 35, looked at her recent layoff from a stressful job as an account manager. Her severance gave her a few months of cushion, so the New York City resident is spending more time on her entrepreneurial venture, Pure Joy Coffee, which she co-founded with her boyfriend.

Her ultimate goal is for the specialty coffee business to generate enough income to sustain them both. But for now, she needs another full-time job. Reflecting on her recent layoff, she says it was the push she needed to make a meaningful change.

"I wasn't happy. But sometimes, when you are comfortable in a job, you don't take action," she says. "Now I'll find something I enjoy more." ■

FOR QUESTIONS OR COMMENTS, SEND AN E-MAIL TO FEEDBACK@KIPLINGER.COM.

PHOTO BY KEVIN SERNA

SAVINGS

JUICY YIELDS ON SHORT-TERM CDs

USUALLY, CERTIFICATES OF deposit with long maturities offer higher yields than CDs with shorter maturities. But lately, average interest rates on CDs with terms of about a year have been outpacing those of five-year CDs. In the table at right, you can see top rates on one-year and five-year CDs as of early April.

CD yields often follow the trajectory of yields on U.S. Treasury securities, says Ken Tumin, founder of DepositAccounts.com. And rates on short-term Treasuries are higher than those of long-term Treasuries—creating what's known as an inverted yield curve. The market anticipates that inflation and the federal funds rate (the benchmark interest rate, set by the Federal Reserve, that banks charge one another for overnight lending) will be lower in a couple of years, and that expectation is driving down longer-term Treasury yields—and CD yields—says Tumin.

CD yields may go a little higher in the coming months if the Fed continues to push up the federal funds rate. In addition, "recent bank failures have motivated some banks to increase their insured deposits," boosting rates on their 12- and 18-month CDs to attract customers, says Tumin.

Should you invest? One-year CDs that are available to customers nationwide recently yielded as much as 5.4%—a bit more than the top rates on savings accounts and money market deposit accounts. But typically, you should invest only money that you can lock away for the CD's full term. Otherwise, you'll likely face an early-withdrawal penalty—often equaling interest earned during the most recent few months—that negates any yield advantage the CD has over other high-yield accounts if it's held to maturity.

If you need to withdraw your money early from a CD, you can use the calculator at www.depositaccounts.com/tools/ewp-calculator.aspx to determine the effective yield you'll earn when you close the account. DepositAccounts.com also provides information on top-yielding CDs available based on your location and the amount you intend to deposit. **LISA GERSTNER**
Lisa_Gerstner@kiplinger.com

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.**

TOP-YIELDING SAVINGS

Taxable Money Market Mutual Funds	30-day yield as of Mar. 28	Minimum investment	Website
Gabelli U.S. Treasury MMF (GABXX)	4.68%	$10,000	gabelli.com
DWS Gov & Agency (DTGXX)	4.55	1,000	fundsus.dws.com
USAA MMF (USAXX)	4.53	1,000	vcm.com
Fidelity MMF (SPRXX)	4.48	1	fidelity.com

Tax-Free Money Market Mutual Funds	30-day yield as of Mar. 27	Tax eq. yield 24%/35% bracket	Minimum investment	Website
Morgan Stanley T-F Daily (DSTXX)*	2.79%	3.67%/4.29%	$5,000	morganstanley.com
BNY Mellon Ntl Muni (MOMXX)	2.77	3.64/4.26	10,000	im.bnymellon.com
Fidelity Muni MMF (FTEXX)*	2.73	3.59/4.20	1	fidelity.com
American Cent T-F MMF (BNTXX)	2.64	3.47/4.06	2,500	americancentury.com

Savings and Money Market Deposit Accounts	Annual yield as of April 5	Minimum amount	Website
UFB Direct (Calif.)†^	5.02%	$0	ufbdirect.com
CFG Bank (Md.)#	5.02	1,000	cfg.bank
Northern Bank Direct (Mass.)†#	4.75	5,000	northernbankdirect.com
Brilliant Bank (Kan.)†#	4.65	1,000	brilliant.bank

Certificates of Deposit 1-Year	Annual yield as of April 5	Minimum amount	Website
Merchants Bank of Indiana (Ind.)†	5.39%	$1,000	merchantsbankofindiana.com
BrioDirect (Conn.)†	5.25	500	briodirectbanking.com
CFG Bank (Md.)	5.20	500	cfg.bank
Crescent Bank (La.)†§	5.15	1,000	cbtno.com

Certificates of Deposit 5-Year	Annual yield as of April 5	Minimum amount	Website
Lafayette FCU (Md.)&	4.68%	$500	lfcu.org
CFG Bank (Md.)	4.50	500	cfg.bank
Crescent Bank (La.)†	4.50	1,000	cbtno.com
Popular Direct (N.Y.)†	4.50	10,000	populardirect.com

*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. §Colorado Federal Savings Bank and Popular Direct 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 April 5	Balance range^	Website
CapEd Credit Union (Idaho)&	5.25%	$0–$10,000	capedcu.com
Genisys Credit Union (Mich.)&	5.25	0–7,500	genisyscu.org
Pelican State CU (La.)&	5.11	0–10,000	pelicanstatecu.com
Elements Financial (Ind.)&#	5.00	0–20,000	elements.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. #Consumers Credit Union (Illinois) has a similar yield. SOURCE: DepositAccounts.

YIELD BENCHMARKS

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	4.82	5.18	1.13
Five-year Treasury notes	3.36	4.26	2.69
Ten-year Treasury notes	3.30	3.97	2.54

As of April 5, 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.

SPECIAL REPORT

Lower Taxes on Your RMDs

Congress has given retirees more time to take required distributions from their retirement accounts. But postponing withdrawals could cost you a lot of money. BY SANDRA BLOCK

RETIREMENT

There's a reason college students pull all-nighters and millions of older adults wait until April 14 to file their taxes. When confronted with a task that's necessary but joyless, it's human nature to put it off until the last minute.

For some retirees, taking withdrawals from their retirement savings accounts is another chore that falls to the bottom of their to-do list. Investments in traditional IRAs and 401(k) plans grow tax-deferred, but you must pay taxes when you take the money out. In addition, tapping a nest egg you've diligently nurtured for decades elicits fears that you'll run out of money in your later years.

If you're reluctant to take money out of your retirement savings, you may be gratified to learn that you have more time to procrastinate. SECURE Act 2.0, which was signed into law late last year, increased the starting age for taking required minimum distributions from traditional IRAs, 401(k)s and other tax-deferred plans to 73, from 72. In 2033, the starting age for RMDs will increase to 75. The change means that individuals who turn 72 this year will be able to postpone taking their RMDs for another year (technically until April 1, 2025, which we'll discuss later).

The delay in the deadline for taking RMDs will benefit seniors who got a late start on saving and need more time for their investments to grow. It will also benefit seniors who are still working in their early seventies, because they may be able to delay distributions until they retire and fall into a lower tax bracket. Almost four in 10 workers (39%) expect to retire at age 70 or older or do not plan to retire, according to the Transamerica Center for Retirement Studies.

A COSTLY DELAY

The RMD deadline is irrelevant to millions of retirees who need funds from their IRAs to pay their expenses in retirement. But if you've been putting off taking distributions from your IRA because you have other sources of income, postponing your day of reckoning with the IRS could prove costly, financial planners say.

Your required minimum distributions are calculated each year based on the amount of money in all of your tax-deferred accounts at the end of the year and your life expectancy as determined by the IRS's Uniform Lifetime Table. When you delay distributions, you shrink

ILLUSTRATIONS BY SÉBASTIEN THIBAULT

the window during which the money must be withdrawn. For example, when you take distributions at age 75, your RMD will be based on the expectation that you'll take withdrawals for an additional 24.6 years. If you live to age 90, your RMD will be based on 12.2 years.

As a result, when you eventually start taking distributions, "your RMD is likely to be bigger every year for the remainder of your retirement," says David McClellan, a partner with Forum Financial Management in Lombard, Ill. Depending on the size of your RMD, the withdrawal could push you into a higher tax bracket and trigger other distressing consequences.

The problem could be exacerbated for married couples if one spouse dies prematurely. The surviving spouse will still be required to take RMDs if that spouse is 73 or older, but at a potentially higher tax rate because the spouse's filing status will have changed from married filing jointly to single, says Brian Schmehil, a certified financial planner with the Mather Group in Chicago.

In addition to shifting you into a higher tax bracket, a large taxable withdrawal could increase your premiums for Medicare Part B, which covers doctor's visits and outpatient

care. High-income Medicare beneficiaries must pay a Part B surcharge, known as the income-related monthly adjustment amount (IRMAA), which is based on your modified adjusted gross income from two years ago. The IRMAA is a "cliff" surcharge, which means that if your MAGI exceeds the threshold by as little as a dollar, you will have to pay higher premiums. In 2023, the standard Medicare Part B premium is $164.90, but seniors who are subject to the surcharge will pay monthly premiums ranging from $230.80 to $560.50, depending on their 2021 MAGI.

Medicare surcharges, along with tax rates, could rise in the future. President Biden has proposed increasing tax rates on individuals who earn more than $400,000 to extend the solvency of the Medicare trust fund by 25 years. While that proposal is unlikely to go anywhere in a divided Congress, lawmakers will eventually need to figure out a way to shore up Medicare and Social Security, which face mounting financial pressures as millions of baby boomers retire. Medicare's hospital insurance fund faces insolvency as early as 2031, and Social Security will be forced to cut benefits by as much as 23% by 2034 unless Congress acts to increase its reserves. Biden's plan is "pointing to an inevitability that taxes are going to have to rise at some point in order to cover these big issues," McClellan says.

DOWNSIZING YOUR TAX-DEFERRED ACCOUNTS

The most effective way to reduce your RMDs is to shrink the amount of money in your tax-deferred accounts before you're required to take them, says Craig Toberman, a CFP in St. Louis. Converting some of the funds in your traditional IRAs to a Roth is one way to accomplish this goal, and

PAYING UNCLE SAM

A Tax Strategy for RMDs

When you retire, you're forced to make numerous adjustments, such as spending all day with your spouse and figuring out how to manage your money when you're no longer receiving a paycheck.

Another big adjustment concerns how—and when—you pay your taxes. If you spent your career working for someone else, you probably had taxes withheld from your paycheck. But once you retire, you may be required to pay estimated taxes on a quarterly basis. The IRS works on a pay-as-you-earn system, which means you could face late penalties even if you pay everything you owe when you file your tax return. Many retirees avoid penalties by dividing the previous year's tax bill into four and sending those payments by the deadline for each quarter. Under the IRS safe harbor rules, you won't face underpayment penalties as long as you pay at least 100% of the previous year's tax liability, or 110% if your previous year's AGI exceeded $150,000 for married couples who file jointly ($75,000 for single taxpayers). Still, this can be a hassle.

However, if you wait until year-end to take your RMD, you're eligible for an exception that could save you time and even a little bit of money. Taxes withheld from IRA distributions are considered paid evenly throughout the year, even if they're made in a lump-sum payment at year-end. You can also ask your RMD provider to withhold enough to cover your estimated tax on the IRA distribution as well as all of your other taxable income for the year.

Rising interest rates have made this strategy even more appealing, because it gives you more time to earn money on funds in your savings accounts, says Ann Reilley, a certified financial planner in Charlotte, N.C. "Some of my clients don't like to pay estimated tax payments at all, so they take their RMD and withhold enough from it to cover their annual tax liability," she says. You can also use funds from the distribution to pay the tax bill, she adds.

the delayed deadline for RMDs gives you more time to convert.

When you convert money in a traditional IRA to a Roth, you must pay taxes on the amount you convert (although part of the conversion won't be taxed if you've made nondeductible contributions to your IRA). But after the conversion, all withdrawals are tax-free, as long as you're 59½ or older and have owned a Roth for at least five years. Unlike traditional IRAs and other tax-deferred accounts, Roths aren't subject to required minimum distributions, so if you don't need the money, you can let it continue to grow, with no obligation to the IRS. "The beauty of a Roth conversion is that it gets the money into a wrapper that will grow tax-free forever," Toberman says. "Even if tax rates double in the future, it has no impact on a Roth because two times zero is zero."

Converting to a Roth can also shield you from the Medicare surcharge because withdrawals won't increase your modified adjusted gross income. However, timing is everything. As mentioned earlier, the surcharge is based on your tax return from two years ago, so a large Roth conversion at age 64, for example, could boost your Medicare premiums when you're 66. One workaround is to convert when you're 62, which will avoid the two-year look-back that begins once you turn 65 and sign up for Medicare. But even if you're older than 62, the upside to a conversion is that future premiums won't be affected by withdrawals from your Roth. Although a conversion could hike your premiums for one year, it could still pay off in the long term.

Ideally with the help of a financial planner, you can calculate how much you can convert each year without moving into a higher tax bracket and/or triggering the Medicare surcharge. The delay in RMDs gives you more time to spread out your conversions and smooth out the tax bill—which is particularly helpful for seniors who continue working into their late sixties, McClellan says. Those seniors may still have a few low-income years after they stop working to convert to a Roth before they're required to take RMDs, he says. That's important, because once you start taking RMDs, you can't convert money in a traditional IRA (or another tax-deferred account) to a Roth until you've taken your required distribution for the year, which could result in a hefty tax bill.

Before 2018, taxpayers who converted an IRA to a Roth had until the tax-extension deadline—typically October 15—of the year following the year they converted to change their minds. The Tax Cuts and Jobs Act eliminated this option, so you need to be prepared to pay taxes on the entire conversion, ideally from sources outside of your IRA.

If you don't have funds outside of your IRA to pay taxes on a Roth conversion, another way to shrink the size of your IRAs is to take modest distributions from your accounts before you're required to take RMDs. As long as you're 59½ or older, you won't pay a 10% penalty on the distributions. You'll owe taxes on the withdrawals, but if you're no longer working, you'll probably pay the taxes at a lower rate. An additional benefit is that you'll be able to use that income to delay filing for Social Security, ideally until age 70, so you can take advantage of delayed-retirement credits.

STRATEGIES FOR OLDER RETIREES

Once you start taking RMDs, you have fewer options to lower your tax bill, which is why planning ahead is important. While SECURE Act 2.0 reduced the penalty for failing to take an RMD from 50% of the amount you should have withdrawn to 25% (10% if you take the necessary RMD by the end of the second year following the year the RMD was due), that's still a hefty slice of your savings.

In the first year you're required to take an RMD, you have the option of postponing your first distribution

CRUNCHING THE NUMBERS

How to Calculate Your Distributions

To calculate your RMD, divide your year-end account balance from the previous year by the IRS life-expectancy factor, which is based on your birthday in the current year. For example, suppose you're single, will be 75 this year and had $500,000 in your IRAs at the end of 2022. Based on a life expectancy factor of 24.6, your RMD this year would be $20,325.

The IRS updated its Uniform Lifetime Table in 2022 to account for longer life expectancies. That means your RMDs will be slightly smaller than previous versions of the table specified.

Most retirees will use the IRS Uniform Lifetime Table to calculate their RMDs, which you can find at www.irs.gov/retirement-plans/plan-participant-employee/ira-required-minimum-distribution-worksheet. However, if your spouse is more than 10 years younger than you and the sole beneficiary of your IRA, use the Joint Life and Last Survivor Expectancy Table, which you can find at www.irs.gov/retirement-plans/plan-participant-employee/ira-required-minimum-distribution-worksheet-spouse-10-years-younger.

Kiplinger.com offers a calculator you can use to compute your RMD. Find it at kiplinger.com/links/rmd. Note, though, that if your spouse is more than 10 years younger than you are, the RMD will be less than shown in this calculator.

If you own multiple IRAs, you need to calculate the RMD for each account, but you can take the total RMD from just one IRA or any combination of IRAs. For instance, if you have an IRA that's smaller than your total RMD, you can empty out the small IRA and take the remainder of the RMD from a larger IRA. However, if you own multiple 401(k)s, you must calculate and take the RMD from each 401(k) separately.

until April 1 of the following year. For example, if you turn 73 this year, you can postpone your first distribution until April 1, 2024. (For all years following the first year, your deadline is December 31.) However, when you postpone your first RMD until April 1, you'll end up having to take two RMDs in one year, which could double your tax bill.

A tax break for charity. You can support your favorite charities and lower taxes on your RMDs through what's known as a qualified charitable distribution. You can make a QCD as early as age 70½, but once you're required to take distributions, the QCD will count toward your RMD. Although a QCD isn't deductible, it will reduce your adjusted gross income, which besides lowering your federal and state tax bill can also lower taxes on your Social Security benefits and shield you from paying higher Medicare premiums.

In order to take advantage of this tax break, your charitable gifts must be made directly from your IRA to the charity. In addition, you can't make a QCD to a donor-advised fund or private foundation, and the recipient must be a 501(c)(3) charity registered with the IRS.

The maximum you can donate through a QCD is capped at $100,000 a year. Starting in 2024, that amount will be indexed to inflation, so look for higher thresholds in the future. But even if you donate less than that, you can use this tool to lower your tax bill. Jan Valecka, a CFP in Dallas, encourages clients who have traditionally made annual donations to their church or other organizations to make those contributions from their IRAs.

The key is to make sure your contribution goes directly from your IRA to charity—if you take a withdrawal and then write a check, it won't count as a QCD. Keep good records so you or your tax preparer can report QCDs on your tax return.

A deferred income annuity. The formula the IRS uses to calculate RMDs (see the box on page 55) assumes you'll live for a long time, so if your withdrawals are limited to RMDs, there's a good chance you won't outlive your savings. The wild card is long-term-care costs. Even a large nest egg can be depleted by several years in a nursing home.

A qualified longevity annuity contract (QLAC) provides a source of guaranteed income and will also defer taxes on your RMDs. QLACs allow seniors to use funds in their IRAs or 401(k) plans to purchase a deferred income annuity that provides guaranteed payments on or before age 85. Some seniors use these products to cover their long-term-care expenses, which tend to increase significantly late in life.

The portion of savings used for the annuity is excluded from the calculation to determine your RMDs. For example, if you have $500,000 in an IRA and transfer $100,000 into a QLAC, your RMD is based only on the remaining $400,000. The taxable portion of the money you invested will be taxed when you start receiving income from the annuity. SECURE Act 2.0 increased the maximum you can invest in a QLAC to $200,000, from $125,000. The law also eliminated a provision that limited QLAC investments to 25% of your plan balance.

HOW TO TAKE DISTRIBUTIONS

Many seniors who don't need funds from their IRAs to pay expenses wait until year-end to take the money out. In a rising market, that gives your investments more time to grow. But in a declining market, that strategy could force you to sell securities at a loss to satisfy your RMD. In response to the 2008–09 financial meltdown and in 2020 due to the pandemic, Congress suspended RMDs for a year, but you can't count on that happening again.

Ideally, you should keep enough money in safe, low-risk investments, such as a money market funds, to cover your RMD. But if for some reason you don't have sufficient funds in liquid accounts to fulfill your obligation, you may want to consider making what's known as an in-kind distribution. With an in-kind distribution, you arrange to have stock or mutual fund shares transferred from your IRA to a taxable account so you won't have to sell your investments.

The IRS will tax the value of the shares as income, so make sure that value is equivalent to your RMD. The in-kind distribution is valued at the price of the shares at the market close on the day of the transfer. This maneuver won't lower taxes on your RMD, but it will allow you to avoid selling investments at a loss. If the market rebounds, your investments will recover, which wouldn't be the case if you cashed them out to fulfill your RMD. ■

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

KIPTIP

Know the Rules for Inherited IRAs

If you've been putting off taking distributions from your IRAs because you want to leave the money to your children, a recent change in distribution rules could make you reconsider your estate plans. Before 2020, beneficiaries of inherited IRAs (or other tax-deferred accounts) could transfer the money into an account known as an inherited (or stretch) IRA and take withdrawals over their life expectancy. Now, most adult children and other nonspouse heirs who inherit an IRA must deplete their accounts within 10 years after the death of the original owner. (Spouses still have the option of rolling the money into their own IRAs or taking distributions based on their lifetimes.) That could create significant tax bills for your heirs, particularly if they're in their peak earning years during the distribution period. Nonspouse heirs who inherit a Roth IRA are also required to deplete the account in 10 years, but withdrawals will be tax-free.

LIVING IN RETIREMENT | Janet Bodnar

For Retirees, Money Isn't Everything

In my April "Living in Retirement" column, readers weighed in with their advice on how to cook up a "secret sauce" for a financially secure retirement. But many of you pointed out that when it comes to a satisfying retirement, money isn't everything.

"Retirement should not be based on a spreadsheet and numbers only," writes Avery Youngblood. "If you are sitting at an eight-hour-a-day job, you can't provide care for your elderly mother or help your adult child through a divorce or care for a grandchild. I could have worked longer, but being there when my family needed me was more valuable than having more in my 401(k)."

A number of readers made the point that social interaction is critical to happiness in retirement. "We are financially secure, so our focus has been on relationships at home and in our community," writes Doug Brose. "Our true wealth comes from the strength of those relationships."

Having a sense of purpose is another key factor. "The financial part of retiring, albeit very important, is, in my opinion, only half the equation," says Ralph Nappi. "I have been retired for six years, and the best advice I have heard is, 'You need to retire *to* something, not *from* something.'"

Reader John Nappo agrees that "doing something meaningful, like volunteering, is rewarding," and advises "finding something that makes you feel like you are making a difference in your community." Nappo is a volunteer with AARP's Tax Aide program.

Along those lines, Dave Lee thinks "giving" should be added to the secret sauce recipe. "We believe that tithing and giving are important," writes Lee. "This is a way of acknowledging that our lives and efforts are part of a larger tapestry, far beyond what we ourselves can see and control."

ILLUSTRATION BY PATRICK WELSH

PERSONAL RELATIONSHIPS, A SENSE OF PURPOSE, A HEALTHY LIFESTYLE AND A POSITIVE OUTLOOK ARE ALSO IMPORTANT.

Health matters. Also on the list of ingredients is a healthy lifestyle. Reader Terry Oftedal offers a checklist: "Choose healthy foods, learn to cook, enjoy exercising or walking several days a week, manage your body weight and develop a health support team to utilize regularly." And while you're at it, "develop healthy habits for managing expenses."

Another reader recommends having "a plan, a bucket list and/or a to-do list for daily and long-term activities." That means "planning vacations years in advance, keeping in mind health requirements. Stay healthy or healthier than you've ever been."

Reader Cynthia Messina suggests another category for our list: Raise your children to be financially independent adults so that you are not in the position of supporting them instead of retiring. Says Messina, "Our sons are in their late twenties, both married, both homeowners, both employed in jobs they enjoy. Both contribute the annual maximum to their 401(k) plans and neither carries credit card debt. I retired at 59 and my husband at 62."

It was gratifying to hear from so many readers who credited *Kiplinger's* with helping them achieve a retirement with no regrets. "Read *Kiplinger's* all your life!" advises Earl Luetzelschwab. "Maybe your older readers will give gift subscriptions to their children and grandchildren to make their future retirements much more comfortable."

A special thanks to those of you who tipped your hat to these columns in particular. "Not only do you provide useful information, but you help catalyze discussions between spouses when we might be inclined to remain silent," says Dave Lee.

Like social interaction, open communication is critical in retirement. "Find that special someone to share it all with," writes John Nappo. "Those of us with spouses and families whom we love are truly blessed."

Bottom line: Personal relationships, a sense of purpose and a healthy lifestyle all contribute to a satisfying retirement—as do a positive attitude and a sense of humor. "We read an article that said retirees should buy a bread maker, so we did," writes Marilyn Shell. "We didn't calculate the return on investment, but we've certainly enjoyed a lot of delicious fresh bread." ■

JANET BODNAR IS EDITOR AT LARGE OF *KIPLINGER'S PERSONAL FINANCE*. CONTACT HER AT JANET_BODNAR@KIPLINGER.COM.

PRACTICAL PORTFOLIO

Your Questions Answered

Kiplinger readers have inquiring minds when it comes to investing. Here's what you're asking about. BY KIM CLARK

NO DOUBT ABOUT IT, YOU ARE A thoughtful and inquisitive group. You send us many e-mails with astute questions about investing. We try to respond to most of them individually (although we can never give individual investment advice). Here are some queries about topics we thought many of you might be wondering about as well.

Why would anyone lock up money for 30 years when you can get a higher yield on a shorter-term bond?

RICHARD READY
SHAWANO, WISC.

Take a moment to consider *why* short-term yields are more generous currently. Typically, the longer you lock up your money, the higher the interest rate you receive. But when investors see a recession looming and therefore expect interest rates to fall, they bid up long-term bond prices in anticipation, sometimes pushing yields on long bonds below short-term yields. (Prices and yields move in opposite directions.) That creates a "yield curve inversion."

If we do head into a recession, look for the Federal Reserve to cut short-term rates—but rates will likely fall across the board. So you could end up wishing you had locked in today's long-term rates, says Kathy Jones, chief fixed-income strategist for the Schwab Center for Financial Research. Long-term bonds also offer a higher potential for capital gains if rates head lower. The longer a bond is from maturity, the more sensitive its price is to changes in interest rates. A drop in interest rates could allow you to sell your long-term bond for a profit.

But most investors should avoid trying to time the market, says Jones. To ensure a steady stream of income and avoid getting locked into one interest rate, consider a bond ladder, which is a series of bonds with staggered maturities. If rates fall, you'll have at least some money locked in for the long term; if they rise, you'll be able to reinvest the proceeds from maturing bonds at higher rates.

I've been investing for more than 30 years, but I looked closely at 30-day yields on taxable money market funds recently and realized I must not understand them fully. Please explain what a 30-day money market yield means and how it is calculated.

PAUL MASSEY
ANDERSON, S.C.

In the vast universe of yields, there's one for every situation. The 30-day compound yield, which we run in the Top-Yielding Savings table on page 50, starts with the net yield, which reflects interest and dividends minus expenses. The yield is then annualized, so it's a hypothetical look at what you'd earn if conditions remained unchanged over the next 12 months. A compound yield assumes that interest and dividends are reinvested over the 30-day period, which can be helpful if you're comparing it to bank money market accounts, whose yields reflect compound interest.

It's slightly different from the SEC 30-day yield, which offers a standardized framework for comparing bond funds. That one is also an annualized net yield but does not assume any compounding. Thirty-day yields can lag a fast-moving market. That's why money market funds most often post seven-day SEC yields, which project what a fund will earn over the next year, after fees, based on how it has performed over the past seven days.

I am a beginner and am thoroughly enjoying learning about the stock market. How does one invest a regular amount of money at regular intervals? When I see positive gains, I'm not sure how to reinvest

GETTY IMAGES

them in the same or perhaps another stock I'm interested in.

JOSHUA SHERK
PHOENIX

Investing fixed amounts at regular intervals, known as dollar-cost averaging, is a great way to take the emotion out of investing. If your employer offers a 401(k) or other tax-advantaged retirement savings option, you can have a percentage of your paycheck automatically invested. If you want to invest outside of your employer's plan, most banks make it easy to set up automatic, regular transfers to brokerage accounts. You also have some easy options for reinvesting your profits. You can have your broker automatically reinvest dividends back into the stocks or funds that paid them, for example. Or you can periodically rebalance your portfolio when the market takes it too far from your desired allocation by selling some of your winners and investing the proceeds in your laggards. Most brokerages also offer "robo-adviser" services that can do this automatically. Note that you'll owe capital gains taxes on investments that you sell for a profit when you rebalance a taxable account.

We've read in *Kiplinger's* that ETFs are inherently more tax-efficient than mutual funds. Could you explain further?

MARIAN AND RAY ETZEL
MENOMONEE FALLS, WISC.

Mutual funds and exchange-traded funds have similar tax rules. Both send you an IRS Form 1099 for the previous year's dividends, interest payments and realized capital gains. But because of differences in the way the two kinds of funds are structured, ETFs report fewer capital gains, explains Dave Nadig, an ETF expert at investment data company VettaFi. Mutual fund managers who want to get out of a stock, say, or who have to trim their portfolios because investors are pulling money out, generally sell in the open market and thus record a capital gain or loss. But ETF managers use a different system. They trade or swap investments with large institutional investors, who are called authorized participants. These trading firms essentially swap shares in the ETF for baskets of shares of all the companies that make up the ETF's holdings. Because no cash changes hands in what is known as an in-kind redemption, there's no official capital gain. The result is significant tax savings for investors. In 2022, 49.5% of stock mutual funds distributed gains, but only 4.1% of stock ETFs did, according to fund-tracker Morningstar.

Recently you mentioned that the SIPC insures investor accounts for up to $500,000. What should investors do if their account is greater than that? Is there additional insurance they can purchase? Should they split their funds among different brokers?

L.W.
CHICAGO

The Securities Investor Protection Corporation is a nonprofit organization that insures investment holdings at brokerage houses against fraud and failure. If you have, say, one share of Berkshire Hathaway at a brokerage house that goes out of business, you'll get that share back. (Note that your original cost is not insured. The value of your share may have fallen below what you paid for it.) SIPC caps its coverage at $500,000 per customer for all of the customer's similar accounts at the same institution. One way for a single person to protect more money is to open different kinds of accounts (such as an IRA and a taxable account) at their brokerage, or to open accounts at different brokerages. A couple can open separate accounts under their own names at the same brokerage. To further allay your concerns, many major brokerages have purchased additional protection known as excess SIPC insurance. For example, Schwab reports that it insures up to $149.5 million per customer. ■

FOR QUESTIONS OR COMMENTS, SEND AN E-MAIL TO FEEDBACK@KIPLINGER.COM.

MILLENNIAL MONEY | EMMA PATCH

Are You Guilty of Financial Infidelity?

Nearly one in four Americans are keeping money-related secrets from their partners, according to a recent survey by Bankrate. That could mean hiding anything from a spending splurge to having a secret credit card, bank account or debt. For millennials and Gen Zers, financial infidelity is even more common. Nearly two-thirds of Gen Zers and more than half of millennials in married or live-in relationships admit to having kept a financial secret from their current partner at some point, compared with 29% of Gen Xers and baby boomers.

Having it both ways. While less than 20% of Gen X and boomer couples keep their finances separate, 43% of Gen Z and 31% of millennial couples maintain separate finances, according to Bankrate. Even if you prefer having separate accounts, consider setting up "yours, mine and ours" accounts, says Ted Rossman, senior industry analyst for Bankrate.

Under this arrangement, each partner has some money—either a percentage of each paycheck or a certain dollar amount—that is theirs alone. In addition, the couple sets up a joint account for shared expenses, such as housing costs. Beyond that, both partners agree to discuss any withdrawals from the joint account that exceed a set amount. For example, any purchase over $200 from the "ours" account needs to be discussed first. The parameters you choose will vary depending on your budget and your preferences. This method of sharing and separating simultaneously is especially popular among Gen Zers and millennials, Rossman says.

Alternatively, if you'd rather keep all of your finances separate, consider divvying up expenses in terms of

MOST PEOPLE WOULD RATHER DISCUSS THEIR WEIGHT, RELIGION OR POLITICAL VIEWS THAN TALK ABOUT HOW MUCH DEBT THEY HAVE.

spending categories. For example, one partner might cover housing costs (such as mortgage or rent), while the other covers groceries and utilities. You may also want to allocate expenses based on each of your salaries.

Let's talk. Hashing out your finances may not come easily, especially when it comes to spending and debt.

There's still a fair amount of stigma and shame when it comes to the subject of debt. Most people would rather discuss their weight, religion or political views than talk about how much money they owe, according to a survey from CreditCards.com. But even if you choose to have separate accounts, your finances will be affected by the amount of debt you bring into the relationship. Your secret debt may be discovered when you and your partner apply for a car loan, a mortgage or even an apartment rental because in those situations, both parties' credit reports are often checked.

It may also be difficult to talk about spending. "I think budgeting is really stressful for couples, and I think part of the reason for that is that everyone comes to the relationship with a different experience with money, and everyone handles that experience differently," says Sam Gorelick, managing financial planner for Brunch & Budget, a financial coaching and planning firm.

When discussing spending with your partner, she says, avoid framing the conversation in a way that suggests you're criticizing the other person's spending habits or looking over their shoulder. Focus instead on asking yourselves what you want to accomplish together, such as buying a house, having a child, or saving for your child's education.

For my partner and me, communicating early and often about our finances has proved to be key to maintaining sound financial habits. When we have something to discuss, we often pair the task with an activity, such as going for a walk or out for a coffee, which makes it a little more fun. Gorelick recommends setting up a regular time to discuss finances and suggests keeping the discussions short and sweet.

"When you spend 45 minutes to an hour talking about finances together, things get more emotional regardless of how you feel about all of it," she says. If you keep it short, she adds, you can usually keep the conversation civil and productive.

For budgeting tips and other money management tools, check out apps designed for couples, such as Honeydue (www.honeydue.com) and Qapital (www.qapital.com). ■

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

ILLUSTRATION BY PATRICK WELSH

Skip These Fees When You Head Overseas

Foreign-transaction fees can add up when you make purchases abroad, but there are ways to bypass them. BY EMMA PATCH

GETTY IMAGES

WHETHER YOU'RE TRAVELING abroad or shopping online, foreign-transaction fees can take a toll when you use a credit card or debit card to make purchases with merchants outside the U.S. The fees, which many cards charge to process transactions made in a foreign currency, typically tack on an extra 3% of the purchase amount to your bill. Check your card's transaction history to review the fees, which are typically listed separately from the charges that triggered them.

Dodge fees at the register. Fortunately, you can avoid foreign-transaction fees by carrying the right cards in your wallet. A few credit card issuers, including **CAPITAL ONE** and **DISCOVER**, don't charge the fees with any of the cards they offer.

Most other credit card issuers waive the fees with certain travel-focused cards. The **BANK OF AMERICA TRAVEL REWARDS** and **WELLS FARGO AUTOGRAPH** cards are free of both foreign-transaction fees and annual fees. Other cards that charge no foreign-transaction fee include **AMERICAN EXPRESS PLATINUM** ($695 annual fee), **CHASE SAPPHIRE PREFERRED** ($95), **CHASE SAPPHIRE RESERVE** ($550) and **CITI PREMIER** ($95). Most of our picks for the best travel rewards cards charge no foreign-transaction fee; you can see them at kiplinger.com/kpf/travel-rewards-cards.

Banks usually impose foreign-transaction fees when you use their debit cards for purchases abroad, but there are a few exceptions. For instance, the online **CAPITAL ONE 360 CHECKING** and **CHARLES SCHWAB BANK INVESTOR CHECKING** accounts, which have no monthly fees, don't charge foreign-transaction fees. The **TD BANK BEYOND CHECKING** account (maintain a $2,500 minimum balance or meet other requirements to avoid the $25 monthly fee) skips the foreign-transaction fee, too.

Regardless of the kind of card you use, watch out for "dynamic currency conversion," in which foreign merchants offer to process your transaction in U.S. dollars rather than the local currency. More often than not, the exchange rate at the point of sale is unfavorable, and you may be charged additional fees. "To make sure you get the best exchange rate when using your debit card or credit card abroad, you should refuse offers for dynamic currency conversion," says Jill Gonzalez, analyst for WalletHub.

Smart ways to get cash. Withdrawing cash at an ATM abroad often involves several fees. In addition to a foreign-transaction fee, you may pay a fee to your bank or credit union for using an ATM that isn't part of its network, an ATM operator fee for using the machine, and in some cases a markup for currency conversion. Supplying yourself with the foreign currency at your bank in the U.S. in advance of your departure is likely to be less costly than making an ATM withdrawal abroad.

But if you do use an ATM outside the U.S., you may be able to sidestep some of the fees. Debit cards and credit cards that charge no foreign-transaction fee on purchases also waive the fee on ATM withdrawals. But with a credit card, you will likely be hit with a cash-advance fee of about 3% to 5% of the withdrawal amount.

The Schwab Investor Checking and TD Bank Beyond Checking accounts charge no out-of-network fees and reimburse ATM operator fees (maintain a $2,500 minimum balance in the TD account to qualify for reimbursement). If you use a Bank of America debit or ATM card to withdraw cash from an ATM that is within the bank's international network of partner institutions, you won't be charged out-of-network fees or ATM operator fees. But you'll still pay a foreign-transaction fee of 3%. ■

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

SAVE BIG BY GOING GREEN AT HOME

New legislation is packed with tax breaks for homeowners who upgrade to energy-efficient systems and appliances. Bonus: You'll slash your utility bills. BY DANIEL BORTZ

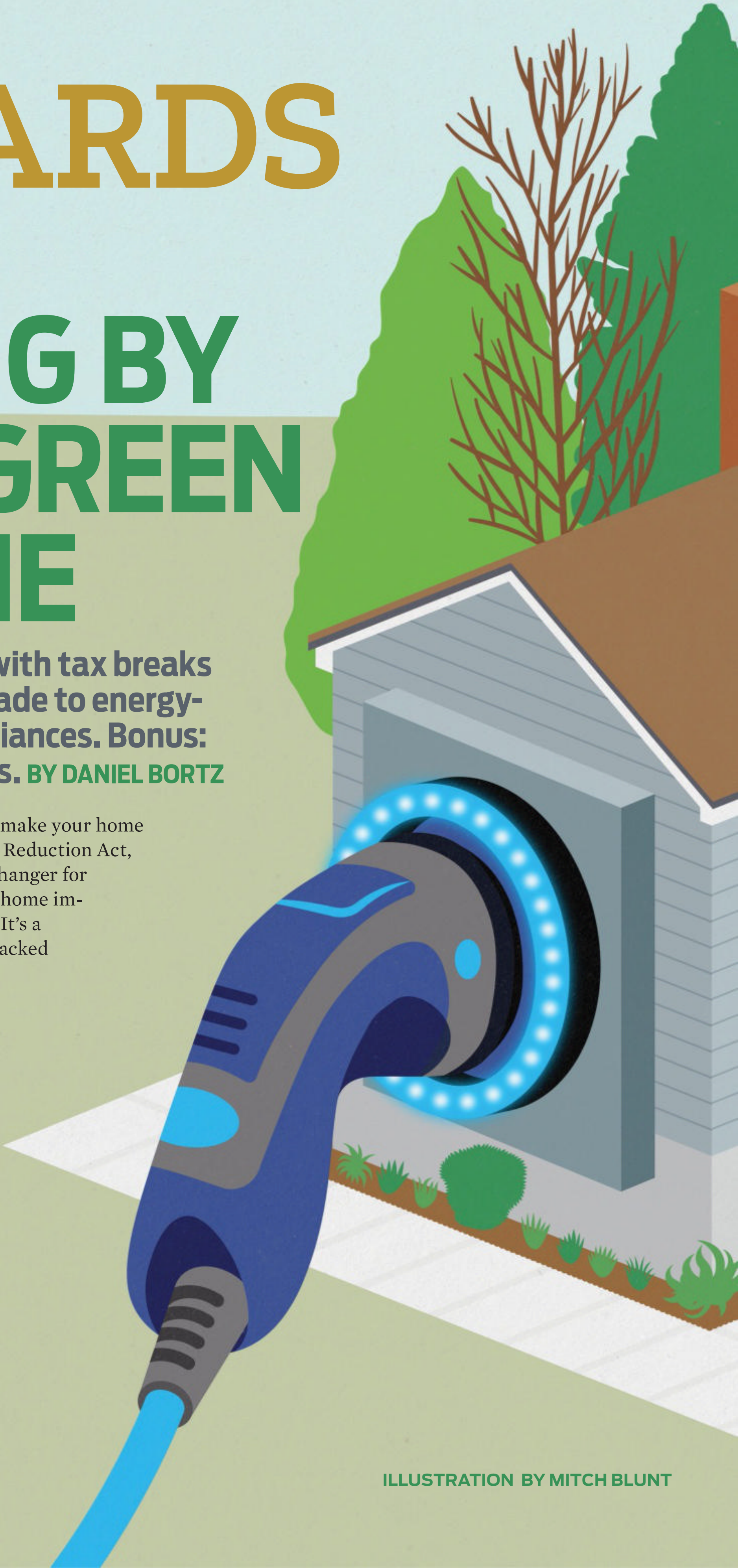


ILLUSTRATION BY MITCH BLUNT

There has never been a better time to make your home more energy efficient. The Inflation Reduction Act, signed into law last year, is a game changer for homeowners looking to make green home improvements and save money on utility bills. "It's a monumental piece of tax legislation" that's packed with tax credits and deductions, says Mark Steber, chief tax officer at Jackson Hewitt.

At the same time, the new law has "a lot for homeowners to parse through, and there are a lot of nuances for what qualifies and what doesn't qualify for a tax break," Steber says.

If you're thinking of purchasing an energy-efficient appliance or system, here's what you need to know to squeeze the most savings out of the Inflation Reduction Act, along with tips on four common green home-improvement projects.

GETTY IMAGES

SAY FAREWELL TO LIFETIME LIMITS

Until the end of 2021, homeowners could claim a credit for up to 10% of the cost of installing certain energy-efficient insulation, windows, doors, roofing and other home improvements. But the credit was capped at a modest lifetime limit of $500, with a $300 lifetime limit for windows.

That's no longer the case. The Inflation Reduction Act's Energy Efficient Home Improvement Credit lets homeowners—no matter their income—claim a tax credit for up to 30% of the cost of qualifying home improvements, up to $1,200 per year. (A credit is a dollar-for-dollar reduction in your tax bill.)

However, there are annual dollar limits for certain items:

- $250 per exterior door (up to $500)
- $600 for exterior windows and skylights; central air conditioners; electric panels and wiring; natural gas, propane or oil water heaters; natural gas, propane or oil furnaces; and hot water boilers

One exception: There's a more generous yearly credit limit of $2,000 for heat-pump water heaters and heat pumps for heating and cooling your home that meet the highest "non-advanced" efficiency tier of the Consortium for Energy Efficiency (CEE).

Lisa Greene-Lewis, a CPA and tax expert at TurboTax, recommends that homeowners space out qualifying home projects over several years to reap more benefits. "If you're thinking of installing new energy-efficient windows, consider starting with the first floor of your house, and then do the second floor the following year," she suggests. The Energy Efficient Home Improvement Credit is valid through 2032.

CLEAN-ENERGY SYSTEMS

Before the new law kicked in, you could take a tax credit of up to 26% of the cost to install qualifying systems that use solar, wind, geothermal, biomass or fuel-cell power to produce electricity, heat water or regulate the temperature in your home. That credit has been replaced by the Residential Clean Energy Credit, which now excludes biomass but adds battery storage and, most important, offers sweeter incentives for renewable-energy home improvements.

Under the new tax law, consumers can qualify for a clean-energy credit of up to 30% for eligible expenditures from 2022 through 2032. The credit then slides to 26% for systems installed in 2033 and 22% for systems installed in 2034, and it expires after 2034.

A 4% bump may seem small, but it can equate to big savings when you are making large-scale clean-energy improvements to your home. For example, the average cost to install a 10-kilowatt solar panel system is $29,500, according to EnergySage, a solar marketplace that connects homeowners with installers and manufacturers. For that expense, a 30% credit is $8,850, compared with $7,670 for a 26% credit.

Plus, there's no dollar limit on the clean energy credit. So whether you shell out $20,000 or more than $100,000 on a renewable-energy system, you'll receive a 30% credit for the full amount you spend.

The Inflation Reduction Act also extends the tax credit for installing electric-vehicle charging stations at homes through 2032, up to 30% per charger, with a maximum credit of $1,000. What's new is that the credit now also applies to other EV charging equipment, such as bidirectional (two-way) chargers.

TAKE ADVANTAGE OF REBATES

The new High-Efficiency Electric Home Rebate program, added as part of the Inflation Reduction Act, will offer nearly $9 billion in rebates to low- and middle-income families who purchase energy-efficient electric appliances.

To qualify for a rebate, your family's total annual income must be less than 150% of the median income where you live. (You can view median income where you live using Fannie Mae's tool at https://ami-lookup-tool.fanniemae.com/amilookuptool.) Qualifying homeowners can receive rebates for as much as:

- $840 for a stove, cooktop, range, oven or heat-pump clothes dryer
- $1,750 for a heat-pump water heater
- $8,000 for a heat pump for space heating or cooling

There will also be rebates for other upgrades, up to:

- $1,600 for insulation, air sealing and ventilation
- $2,500 for electric wiring
- $4,000 for an electric load service center upgrade

KIPTIP

Smart Ways to Lower Your Utility Bills

Update lighting. Still using incandescent lightbulbs? Replacing them with LEDs (light-emitting diode bulbs), which use 90% less energy, can save the average household about $225 in energy costs annually. Bonus: LEDs last up to 25 times longer than incandescent lighting.

Adjust the thermostat. Dialing your thermostat down 7 to 10 degrees from its normal setting for eight hours a day in the winter and turning it up 7 to 10 degrees for eight hours a day in the summer—while you're away at work, for instance—can lower your home's energy costs by as much as 10% a year. Consider getting a programmable thermostat—it will take the guesswork out of adjusting your home's temperature. Or buy a smart thermostat that you can use to control your home's temperature from your phone.

Replace air filters every three months. "Doing this can limit the number of airborne pollutants in your home, and it can also save money on your energy bill due to the system running at higher efficiency," says Rebecca Moser, an energy market specialist at Arlington, Va.'s Office of Sustainability and Environmental Management. Consistently replacing dirty filters with clean ones also helps prevent dust and dirt from building up, which can cause a system failure, says Abigail Daken, heating and cooling product manager for the EPA's Energy Star program.

Keep up with HVAC maintenance checks. Having your home's heating and cooling system professionally inspected at least once a year can help ensure that your HVAC stays in tip-top shape. An inspector can not only help you spot signs of cracks, rust, water stains and dents but also identify emerging problems. If you have an older system, consider getting it inspected twice a year—once in the spring and once in the fall—so that your system is in peak condition to handle the heavier summer and winter loads.

Save water in the shower. Showers account for nearly 17% of a typical home's indoor water use, according to the EPA. The average family can save 2,700 gallons per year by replacing old showerheads with WaterSense models, which use substantially less water and put less demand on water heaters. Shortening your showers, even by just a few minutes, can also help conserve water—a small but important step, especially in communities with a water shortage.

Break bad laundry habits. Water heating makes up about 90% of the energy it takes to operate a clothes washer, the EPA says. Running your washing machine using a cold-water cycle can save energy and lower your electric bill; even switching from hot to warm water can cut energy use in half. Also, make sure to wait until you have a full load of laundry before running your washer and dryer. And remember to clean your dryer's lint filter before each cycle; it will help your clothes dry faster.

Clamp down on vampire power. Vampire power, also called phantom load, is energy consumed by appliances and electronics that are plugged in but not in use. Vampire power adds about $165 to the average household's annual energy costs, according to a report from the Natural Resources Defense Council. One way to cut down on your home's vampire energy is to use smart plugs (a Kasa Smart four-pack costs $30), says Sara Miltenberger, a sustainability consultant and host of the podcast Make Climate Cool Again. Smart plugs let you set a schedule for when certain appliances and devices in your home turn on and off, conserving energy in the process.

The new law's rebate program is expected to launch later this year, says Ben Evans, federal legislative director at the U.S. Green Building Council. The rebates will be managed by each state's energy office. "Once these programs get up and running, we'll have more guidance around how to apply for the rebates, but we know that these rebates will be quite lucrative for a lot of people," he says.

In the meantime, you might qualify for a rebate from the federal government or your utility company for installing an Energy Star–certified product. Go to www.energystar.gov/rebate-finder to search for Energy Star rebates in your area.

Rewiring America, a nonprofit focused on electrifying homes, businesses and communities, offers a calculator (www.rewiringamerica.org/app/ira-calculator) that can give you an estimate of how much you could save through the Inflation Reduction Act's tax incentives and rebates based on factors such as your tax filing status, zip code and household income. "The calculator can help you maximize your benefits and figure out what changes you really want to make to your home," says Noah Goldmann, a policy analyst and tax expert at Rewiring America.

WHY YOU SHOULD GET A HOME ENERGY AUDIT

In a home energy audit, a residential energy professional assesses your home's current energy consumption and identifies ways to make your house more energy efficient. "There are various benefits to completing a home energy audit, such as reducing energy costs on your utility bill, improving comfort levels in your home, reducing your home's environmental impact and increasing the lifespan of your appliances and equipment," says Rebecca Moser, an energy market specialist at Arlington, Va.'s Office of Sustainability and Environmental Management.

Another reason to get a home energy audit: The Inflation Reduction Act established a $150 tax credit for them. A home energy audit runs an average of $420, HomeAdvisor reports, with costs varying depending on a home's square footage.

GETTY IMAGES

FOUR GREEN PROJECTS THAT PAY OFF

Energy-Efficient Windows

Cost: $250 to $2,000 per window, according to Angi.com; hiring a contractor to install them adds an extra $200 to $800 per window.
Tax credit: $600 annually for exterior windows and skylights.
Potential rebate: Only if windows are part of a retrofit that achieves specific energy savings

Replacing all of the windows in your home is pricey, but the savings on your energy bills and increased comfort make it worth serious consideration. According to Angi.com, vinyl replacement windows typically range from $400 to $1,400 per window (including installation), depending on the brand, size and cost of the installation. If you choose wood frames, plan on paying $700 to $2,800. Vinyl windows cost less and require less maintenance, and the frames can be filled with insulating foam. Installation costs are higher for double- or triple-pane windows.

But installing energy-efficient windows can have a big impact on your energy bill. Heat gain and loss through windows is typically responsible for 25% to 30% of a home's heating and cooling energy use, Energy.gov says. Look for the Energy Star label, which means that a product meets the energy-saving criteria set by the Environmental Protection Agency.

Replacing single-pane windows with Energy Star–certified windows

can save you from about $100 to nearly $600 in household energy bills a year for an average-size home, according to estimates by D&R International, an environmental consulting firm.

If you don't have the budget to replace every window in your home, Moser suggests conducting an air-leakage test around windows throughout your house. "This will help determine drafty areas in your home and where window installers need to pay greater attention," she says. Also, if you space out the work over two or three years, you can double or triple the tax savings.

Heat-Pump Water Heaters

Cost: $1,200 to $3,000
Tax credit: up to $2,000 annually for electric and some gas models
Potential rebate: up to $1,750

Looking to nab that handsome $2,000 tax credit for installing an Energy Star–certified heat-pump water heater? You'll also see a big reduction in your home's energy costs, with a family of four saving an average of $470 a year on their energy bill by installing an Energy Star–certified model, with a lifetime savings of around $4,570, according to Energystar.gov. You'll recoup your investment after less than four years.

Heat-pump water heaters are big-ticket items, though. One way to save money: Purchase the right size heater for your family. Typically, a household of four only needs a 50- or 60-gallon water heater, which can cost significantly less than a 75- or 80-gallon

SMART SHOPPING

Snag a Deal on an Energy-Efficient Appliance

If it has been a while since you updated your home's appliances, you may have some energy hogs driving up your utility bills. Whether you're looking to buy a new refrigerator, dishwasher, clothes dryer or other appliance that incorporates improved technology, here's how to shop for a machine that is easy on your wallet and the environment.

Look for an Energy Star label. Products that receive an Energy Star certification meet strict energy-efficiency specifications set by the EPA. For example, dishwashers that are Energy Star certified use no more than 3.5 gallons of water per cycle; older dishwashers often use double that amount of water. You can find a full list of Energy Star–certified appliances at www.energystar.gov/products/products_list.

Comparison shop. Prices can vary among independent appliance dealers, big-box stores and online retailers. If you have your eye on a specific product, you can compare prices by typing the model name and number into Google Shopping (https://shopping.google.com). Some sellers will match competitors' prices, so if you have a preferred retailer, it doesn't hurt to ask—especially if you have a store credit card that offers rewards for purchases. If you're open to buying a used appliance, also look at third-party resellers.

Wait for new models to arrive. If you're not in a rush, hold out until this year's model hits shelves—many retailers slash prices on last year's appliances when they roll out new models.

Consider a floor model. Your local retailer might offer an appliance that's on display at a discounted price. If it has scratches, dents and other imperfections, you might be able to use them to negotiate a better price.

Bundle several appliance purchases. Some sellers offer bigger discounts to customers who purchase multiple appliances at the same time.

Check for rebates. Many utility companies offer customers rebates for buying Energy Star–certified appliances. For instance, Delmarva Power—an energy provider in Delaware and Maryland—offers a $700 rebate to customers who purchase an Energy Star–certified electric heat-pump water heater.

GETTY IMAGES

water heater. For example, you can save about $850 by getting a 50-gallon Voltex electric heat-pump heater instead of an 80-gallon model.

Note that heat-pump water heaters need a good bit of space—approximately the space in a 12-by-12-foot room, according to Energy Star. Also, they generate noise similar to a dehumidifier and require air filter cleaning periodically.

Attic Insulation

Cost: $1,500 to $3,500, including installation, according to HomeAdvisor
Tax credit: up to $1,200 annually
Potential rebate: $1,600

For many homeowners, "insulation is out of sight and out of mind," says Doug Anderson, home envelope product manager for the EPA's Energy Star program. But poor attic insulation is one of the biggest culprits for home energy loss. Focusing on the attic, which tends to have greater exposure to heat, cold and moisture than other parts of the house, often makes sense.

Insulating an attic, including materials and labor, typically costs between $1,500 and $3,500, HomeAdvisor says, but costs can vary widely depending on the type of insulation you choose. Anderson says fiberglass offers the most bang for your buck.

Pro tip if you're going to do the work yourself: "Always air seal your attic floor before adding attic insulation," Anderson advises.

Solar Panels

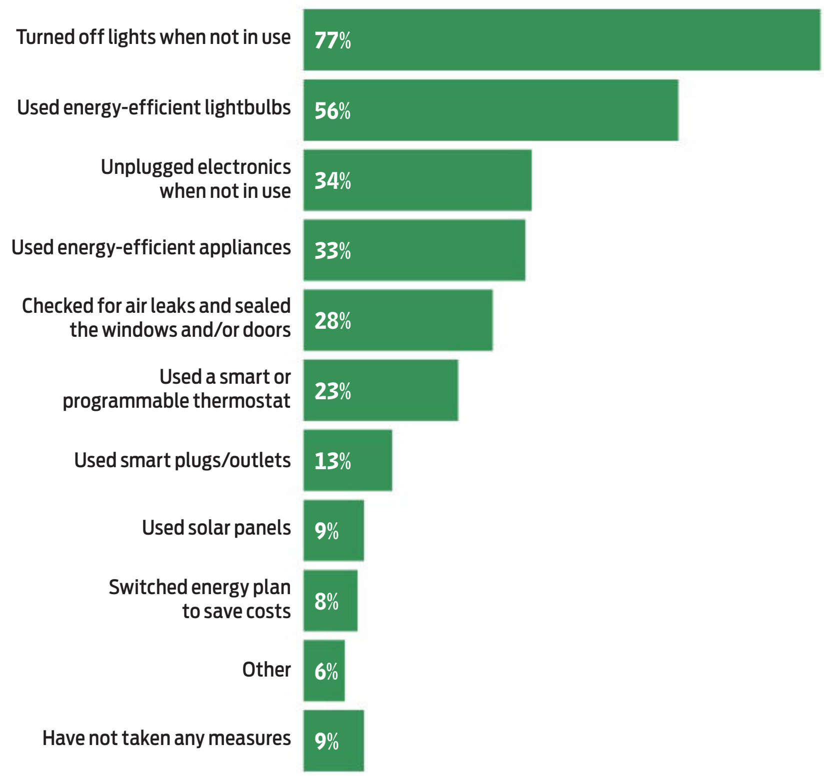
Cost: $29,500, on average, for a 10-kilowatt system, according to EnergySage
Tax credit: 30% of cost
Potential rebate: none as part of Inflation Reduction Act's rebate program

Even though a home solar roof system can cost as much as a small kitchen remodel, it can pay for itself in the long run, with the average homeowner saving anywhere between $20,000 and $97,000 over the life of their solar panel system, EnergySage says.

SURVEY

How Homeowners Save Energy

These are the energy-saving steps homeowners reported doing from September 2022 to March 2023, according to a survey by SaveOnEnergy, a consumer electric utility information website.



Nick Liberati, senior communications manager for EnergySage, breaks it down: The cost of a 10-kilowatt system priced at the national average $2.95-per-watt is $29,500. The federal tax credit allows you to deduct 30% of the cost of installing solar panels from your federal taxes, or in this case, a total of $8,850, bringing the cost to $20,650. On average, it takes 8.7 years to break even—that is, to save enough on power to recover the cost of solar panels. After that, solar energy is free until the equipment wears out.

However, some houses aren't good candidates for solar panels. It depends on the age and condition of your roof, its orientation toward the sun, whether it's shaded by trees and other factors. So it's a good idea to hire a home energy specialist to help you determine whether solar roof panels make sense for your home. (Some home energy audits include a roof inspection for solar panel potential.)

For a rough idea of how much you'd save going solar, enter your address at Google Project Sunroof (https://sunroof.withgoogle.com) to see how many hours of usable sunlight your house receives each year, the recommended size of a roof solar installation for your home and the estimated energy savings over a 20-year span. ■

FOR QUESTIONS OR COMMENTS ABOUT THIS ARTICLE, SEND AN E-MAIL TO FEEDBACK@KIPLINGER.COM.

PAYING IT FORWARD

Dealing With Natural Disasters

His research group helps people prepare for earthquakes and devastating weather events.

PROFILE

WHO: Josh DeVincenzo

WHAT: Assistant director of education and training, National Center for Disaster Preparedness (NCDP), Columbia Climate School

WHERE: New York City

What is NCDP's mission? NCDP is a research center at Columbia University, funded primarily through research grants. We're chipping away at a very large issue and a very large problem, but we're doing as much as we can with the communities to make sure that some outcomes aren't as tragic as they could be. A lot of our portfolio is focused on training and education, public awareness, and public preparedness initiatives to engage communities across the U.S. NCDP also has a research arm and a policy arm. We focus on climatological disasters such as earthquakes, tornadoes and hurricanes, although we also address human-caused disasters.

How do you reach people in need? We have a training presence across the United States. And when we go out in the field, we are working with the whole community, including the emergency managers and citizens. There's really no barrier to entry, and it comes at no cost to attendees. I definitely prefer getting this information in front of people on those blue-sky days, when we can kind of ease into it. But the reality with all these disasters happening is it's often on the gray-sky days, as we call them in the disaster space.

So anyone can attend your sessions? Anybody who has an interest in being more prepared for disaster could attend one of our trainings or one of our courses, and we have an array of audiences. We've done work with K-through-12 students, and we train professionals in the emergency-management community and graduate students here at Columbia. I teach high schoolers about climate-change disasters and the social and economic impact. I'm also a lecturer within the graduate school, and I've been out in the field the past several years, engaging with communities around the country. We have worked with all kinds of stakeholders—government, private sector, nonprofit organizations and emergency-management agencies.

Has the severity of disasters changed over time? How we are building our cities, our housing stock and a lot of our infrastructure has made many of our disasters more costly. The annual report from NOAA [the U.S. government agency that tracks weather and climate] on billion-dollar disasters says that it's getting more expensive. It has also made certain people more exposed to disaster events. It's very structural and a multi-layered problem, without a doubt. But I think there are a lot of interesting solutions being proposed and a lot more attention being given to the individual experience.

What strategies do you advise for individuals? The very first thing would be to understand the different hazards and what types of resources local emergency-management agencies have. Then come up with a financial plan to mitigate or lessen those hazards or, if a disaster were to occur, to lessen the impact on your business and yourselves. Disaster-preparedness measures don't have to be heavy investments. They can be having a procedure in place if a disaster were to happen, determining who you're going to communicate with and having documentation—such as photographs of all the assets at risk that you might have, whether those are appliances or your home itself. That can help if you have to make an insurance claim, for example.

Who can people turn to when dealing with the fallout from a disaster? If a disaster crosses a certain threshold and it gets a presidential emergency declaration, a lot of different levers and programs are then turned on for individuals and households. Otherwise, a lot of it is going to fall on local and state government to design programs to address unmet needs in the community. And then in the social bedrock of those communities there are nonprofits, volunteer groups and private-sector partners that could help fill in the gaps. Engaging with the community is going to be a very important strategy. **EMMA PATCH**

PHOTO BY LESLIE HASSLER

Decanter
FINE WINE ENCOUNTER
NYC
SATURDAY JUNE 10
Join Decanter for New York's premier fine wine tasting event this June
One extraordinary day to taste top wines from around the world
• Grand Tasting
• Masterclasses
• Award-winning wines
BUY TICKETS AND FIND OUT MORE
EVENTS.DECANTER.COM/NEWYORK