Socially responsible investing: Aligning your money with your values

Closing gaps in your insurance coverage

Is it time to review your individual retirement account estate planning strategies?

What are the advantages and disadvantages of owning a franchise?

SOCIALLY RESPONSIBLE INVESTING: ALIGNING YOUR MONEY WITH YOUR VALUES

Sustainable, responsible and impact (SRI) investing (also called socially responsible investing) has been around for a long time, but growing interest has moved it into the mainstream. U.S. SRI assets reached $12 trillion in 2018, 38% more than in 2016. SRI investments now account for about one-fourth of all professionally managed U.S. assets.\(^1\)

Surveys suggest that many people want their investment dollars to have a positive impact on society.\(^2\) Of course, personal values are subjective, and investors may have very different beliefs and priorities.

But there is also a wider recognition that some harmful business practices can affect a corporation’s bottom line and its longer-term prospects. In some instances, good corporate citizenship may boost a company’s public image and help create value, whereas shortsighted actions taken to cut costs could cause more expensive damage in the future.

Data-driven decisions

Services that provide research and ratings for investment analysis may also verify and publish environmental, social and governance (ESG) data associated with publicly traded companies. Money managers who use SRI strategies often integrate ESG factors with traditional financial analysis. Some examples of ESG issues include environmental practices, employee relations, product safety and utility, and respect for human rights.

For example, an SRI approach might include companies with positive ESG ratings while screening out companies that create a high level of carbon emissions, engage in questionable employment practices, invest in countries with poor human rights records, or profit from certain products or services (e.g., tobacco, alcohol, gambling, weapons).

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\(^1\) U.S. SIF Foundation, 2018.

Some investors may not want to avoid entire industries. As an alternative, they could use ESG data to compare how businesses in the same industry have adapted to meet social and environmental challenges, and to gain some insight into which companies may be exposed to risks or have a competitive advantage.

**Investment vehicles**

Many SRI mutual funds and exchange-traded funds (ETFs) are broad based and diversified, some are actively managed, and others track a particular index with its own universe of SRI stocks. Specialty funds, however, may focus on a narrower theme such as clean energy; they can be more volatile and carry additional risks that may not be suitable for all investors. It’s important to keep in mind that different SRI funds may focus on very different ESG criteria, and there is no guarantee that an SRI fund will achieve its objectives.

The number of mutual funds and ETFs incorporating ESG factors has grown rapidly from 323 in 2012 to 705 in 2018. As the universe of SRI investments continues to expand, so does the opportunity to build a portfolio that aligns with your personal values as well as your asset allocation, risk tolerance and time horizon.

As with all stock investments, the return and principal value of SRI stocks and investment funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification do not guarantee a profit or protect against investment loss.

**Investment funds are sold by prospectus. Please consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.**

**CLOSING GAPS IN YOUR INSURANCE COVERAGE**

Buying insurance is about sharing or shifting risk, but you may think you’re covered for specific losses when, in fact, you’re not. Here are some common coverage gaps to consider when reviewing your own insurance coverage.

**Life insurance**

In general, you want to have enough life insurance coverage (when coupled with savings and income) to allow your family to continue living the lifestyle to which they’re accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, a job change could affect your coverage. Your new employer may not offer the same amount of insurance, or the policy provisions may differ. Review your income, savings and expenses annually to help ensure that the amount of life insurance you have matches your needs.

**Homeowners insurance**

It may not be clear from reading your homeowners policy which perils are covered and how much damage will be paid for. It’s important to know what your homeowners policy covers and, more important, what it doesn’t cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that “all perils” are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes and hurricanes may be covered only by special addendums to your policy, or in some cases by separate insurance policies altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and how long it will pay for temporary housing while repairs are made.

To help avoid these gaps in coverage, review your policy annually with your insurer. Also pay attention to notices you may receive. What may look like boilerplate language could actually be significant changes to your coverage. Don’t rely on your interpretations—ask for an explanation from your insurer or agent.

**Auto insurance**

Which drivers and vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you, but it’s not always clear-cut. For instance, a child who is living in a college dorm is probably covered, but a child who lives in an off-campus apartment might be excluded from coverage. If you and your spouse divorce, which policy insures your children, particularly if they are living with each parent at different times of the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires and shocks. And you might not be covered for stolen or damaged mobile phones or other electronic devices. Your policy may also limit the amount paid for a rental while your vehicle is being repaired.

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In fact, insurance coverage for rental cars may also pose a problem. For instance, your own collision coverage may apply to the rental car you’re driving, but it may not pay for all the damage alleged by a rental company, such as “loss of use” charges. If you’re leasing a car long term, your policy may cover the replacement cost only if the car is a total loss or is stolen. But that amount may not be enough to pay for the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren’t always easily understood, and you may not be sure what’s covered until it’s time to file a claim. So review your insurance policy to help ensure you’ve filled all the gaps in your coverage.

**IS IT TIME TO REVIEW YOUR INDIVIDUAL RETIREMENT ACCOUNT ESTATE PLANNING STRATEGIES?**

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, which was passed in December 2019 as part of a larger federal spending package, included a provision that warrants special attention from those who own high-value individual retirement accounts (IRAs). Specifically, the “stretch” IRA provision—which permitted nonspouse beneficiaries who inherited IRAs to spread distributions over their lifetimes—has been substantially restricted. IRA owners may want to revisit their estate planning strategies to help prevent their heirs from getting hit with higher-than-expected tax bills.

### The old stretch rules

Under the old rules, a nonspouse beneficiary who inherited IRA assets was required to begin minimum distributions within a certain time frame. Annual distributions could be calculated based on the beneficiary’s life expectancy. This ability to spread out taxable distributions over a lifetime helped minimize the annual tax burden on the beneficiary. In the past, individuals could use this stretch IRA strategy to allow large IRAs to continue benefiting from potential tax-deferred growth for possibly decades.

**Example:** Consider the hypothetical case of Margaret, a single, 52-year-old banking executive who inherited a million-dollar IRA from her 85-year-old father. Margaret had to begin taking required minimum distributions (RMDs) from her father’s IRA by Dec. 31 of the year following her father’s death. She was able to base the annual distribution amount on her life expectancy of 32.3 years. Since she didn’t really need the money, she took only the minimum amount required each year, allowing the account to continue growing. Upon Margaret’s death at age 70, the remaining assets passed to her 40-year-old son, who then continued taking distributions over the remaining 13.3 years of Margaret’s life expectancy. The account was able to continue growing for many years.

### The new rules

As of January 2020, the rules for inherited IRAs changed dramatically for most nonspouse beneficiaries. Now, they generally are required to liquidate the account within 10 years of the account owner’s death. This shorter distribution period could result in unanticipated and potentially large tax bills for high-value inherited IRAs.

**Example:** Under the new rules, Margaret would have to empty the account, in whatever amounts she chooses, within 10 years. Since she stands to earn her highest-ever salaries during that time frame, the distributions could push her into the highest tax bracket at both the federal and state levels. Because the account funds would be depleted after 10 years, they would not eventually pass to her son, and her tax obligations in the decade leading up to her retirement would be much higher than she anticipated.

### Notable exceptions

The new rule specifically affects most nonspouse designated beneficiaries who are more than 10 years younger than the original account owner. However, key exceptions apply to those who are known as “eligible designated beneficiaries”—a spouse or minor child of the account owner; those who are not more than 10 years younger than the account owner (such as a close-in-age sibling or other relative); and disabled and chronically ill individuals, as defined by the IRS. The 10-year distribution rule will also apply once a child beneficiary reaches the age of majority and when a successor beneficiary inherits account funds from an initial eligible designated beneficiary.

### A word about trusts

In the past, individuals with high-value IRAs have often used what’s known as conduit—or “pass-through”—trusts to manage the distribution of inherited IRA assets. The trusts helped protect the assets from creditors and helped ensure that beneficiaries didn’t spend down their inheritances too quickly. However, conduit trusts are now subject to the same 10-year liquidation requirements, so the new rules may render null and void some of the original reasons the trusts were established.

### What can IRA account owners do?

IRA account owners should review their beneficiary designations with their financial or tax professional and consider how the new rules may affect inheritances and taxes. Any strategies that include trusts as beneficiaries should be considered especially carefully. Other strategies account owners may want to consider include converting traditional IRAs to Roths; bringing life insurance, charitable remainder trusts, or accumulation trusts into the mix; and planning for qualified charitable distributions.

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4 For account owners who died prior to Dec. 31, 2019, the old rules apply to the initial beneficiary only (i.e., successor beneficiaries will be subject to the ‘10-year rule).
WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF OWNING A FRANCHISE?

Owning a franchise can be a great way to break into the world of entrepreneurship. However, franchising isn’t for everyone. It’s best to review the possible pros and cons of franchising before making any commitments.

Potential advantages

- **Mentorship.** Most franchisors offer some managerial coaching to new franchisees.
- **Trusted brand and/or product or service.** Many franchises offer a brand and/or product or service that is typically recognized by your target market.
- **Time-tested operating system.** With the purchase of a franchise comes an operating system that ideally has been tried and proven through the years.
- **Group purchasing power.** Most franchisors have contracts with suppliers, providing the cost benefits of buying in bulk.
- **Advertising and marketing.** After paying a small percentage of gross profits to the franchisor, franchisees can usually take advantage of professionally created campaigns launched by the franchisor.
- **Financial help.** Some franchisors will provide assistance to new franchisees in securing financing.

Potential disadvantages

- **Fees.** In addition to the upfront franchise fee, there may be ongoing royalties and, as mentioned earlier, advertising fees, which are typically required even if you don’t like or want to utilize the campaigns.
- **Control.** You will generally have to abide by the many restrictions set by the franchisor. These can affect operations, types of goods sold, vendor relationships, marketing strategies, geographic location and even website content/presence, among other key management decisions.
- **Renewal policies.** Franchises are generally governed under a contract with an end date, and franchisors may choose not to renew at the time of expiration or may decide to raise fees or impose new restrictions upon renewal.