



Duane E. Lee, II, CFP® CWS®, AIFA, CTFA, CRSP
Executive Vice President
Cannon Financial Institute
Cannon Financial Institute
 13156 Eakin Creek Court
 Huntley, IL 60142
 706-353-3346
 dlee@cannonfinancial.com
 www.cannonfinancial.com



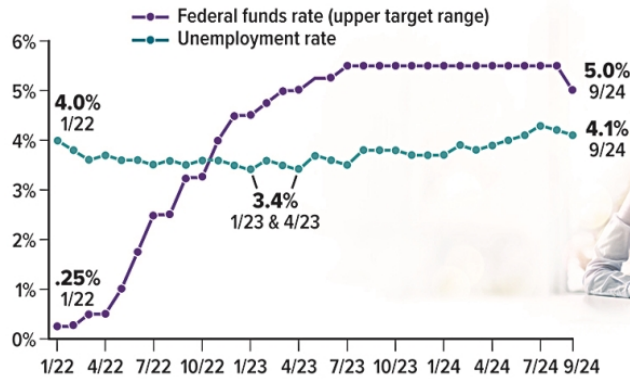
62.7%

Labor force participation rate in September 2024, well above the pandemic low of 60.1% but still below the pre-pandemic level of 63.3%. The participation rate is the percentage of civilians age 16 or older who are either working or looking for work. Perhaps more important than the general rate, the rate for the prime working ages of 25 to 54 was 83.8%, above the pre-pandemic level of 83.0%.

Source: U.S. Bureau of Labor Statistics, 2024

Employment Stayed Strong Despite High Rates

When the Federal Reserve raises interest rates to fight inflation, the unemployment rate typically rises as the economy slows in response to the higher cost of borrowing. Remarkably, unemployment remained under 4% for 27 months during and after the Fed's unprecedented rate increases that began in early 2022 — the longest period at this level since the late 1960s. It has risen slightly but remained just above 4% through September 2024. With inflation apparently under control, the Fed has begun to decrease rates, which could help keep employment strong.



Sources: Federal Reserve, 2024; U.S. Bureau of Labor Statistics, 2024



Treasury Yields Hit 17-Year High

As the Federal Reserve raised interest rates to combat inflation, yields on U.S. Treasury securities climbed to levels not seen since before the Great Recession (see chart). Considering how stubborn inflation has been, the Fed may move slowly in decreasing interest rates. So Treasury yields might remain relatively elevated for some time, even though they have backed off recent highs. In the longer term, Treasuries purchased in the current high-rate environment could offer higher yields than new issues, potentially increasing their value on the secondary market.

You might consider holding Treasuries to maturity to add stability and predictable income to your portfolio, or you could purchase them with an eye toward selling if prices rise — or both. Whatever your goals, there are a variety of Treasury securities available, with maturity dates ranging from four weeks to 30 years. Although longer-term securities typically offer higher yields, the opposite has been true during the last two years, in part because short-term Treasuries respond more directly to changes in the federal funds rate, the Fed's primary tool for influencing interest rates. As the funds rate declines, Treasury yields by maturity — called the yield curve — might return to a more typical pattern.

Purchasing Treasuries

Treasuries are sold in \$100 denominations and can be purchased as new-issue securities through a Treasury auction, either directly from the U.S. Treasury ([treasurydirect.gov](https://www.treasurydirect.gov)) or from a bank, broker, or dealer, or on the secondary market through a brokerage firm.

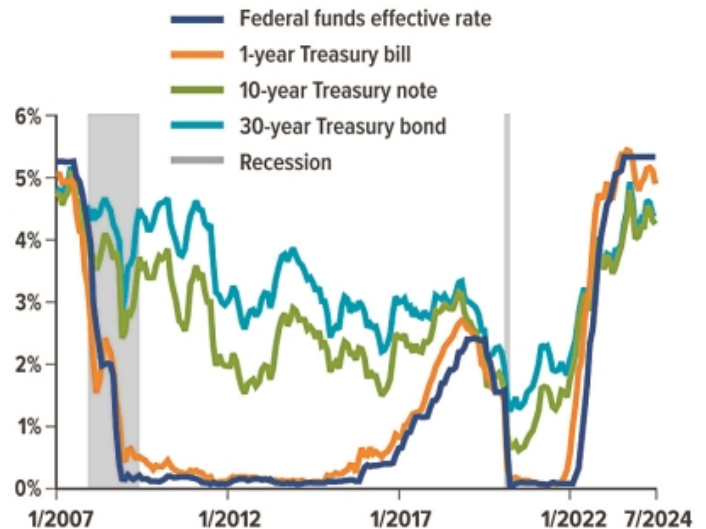
When buying Treasuries (or any bonds), keep in mind that yield is the annual return based on the purchase price and the interest rate paid on the face (par) value, called the coupon rate. When a bond is purchased at face value, the yield is the same as the coupon rate. Treasuries, whether at auction or on the secondary market, are typically sold above or below face value — at a premium or a discount, respectively — to offer a yield in line with the current market. Interest paid on Treasuries is subject to federal income tax but exempt from state and local income taxes.

Treasury bills (T-bills) are short-term securities issued with maturities of four, eight, 13, 17, 26, and 52 weeks. T-bills are sold at a discount from their face value, and the difference between the discount price and the face value at maturity, called the discount rate, is interest paid on the bill.

Treasury notes (T-notes) earn a fixed rate of interest every six months and are issued in maturities of two, three, five, seven, and 10 years. The 10-year Treasury note is often referenced regarding the performance of the bond market and is also used as a benchmark by the mortgage market.

Following the Fed

Yields on short-term Treasuries, up to the one-year bill, generally follow the federal funds rate. Until the rapid increase in the funds rate that began in 2022, longer-term Treasuries offered higher yields, because investors typically demand a higher premium for tying up their cash for a longer period.



Source: Federal Reserve, 2024

Treasury bonds (T-bonds) are similar to T-notes but have a maturity of 20 or 30 years. Like the T-note, they provide an interest payment every six months.

Treasury inflation-protected securities (TIPS) are inflation-indexed bonds with the principal adjusted by changes in the Consumer Price Index (CPI). If the CPI rises, the principal value of TIPS increases, which can be a helpful hedge against inflation. TIPS are issued in maturities of five, 10, and 30 years. (Unless you own TIPS in a tax-deferred account, you must pay federal income tax on the income plus any increase in principal, even though you won't receive any accrued principal until the bond matures.)

Treasury floating-rate notes (FRNs) are issued with a two-year maturity and an interest rate that is adjusted weekly, based on the most recent discount rate for 13-week T-bills. However, interest payments are made quarterly.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid.

Charitable Gifts of Life Insurance

Life insurance can be an excellent tool for charitable giving. Not only does life insurance allow you to make a substantial gift to charity but you may also benefit from tax rules that apply to gifts of life insurance.

Why gift life insurance?

Life insurance allows you to make a much larger gift to charity than you might otherwise be able to afford. Generally, the amount the charity will receive (the death benefit) is usually much greater than the cost to you (premium payments). As long as you continue to pay the premiums on the life insurance policy, the charity will receive the proceeds of the policy when you die. Since life insurance proceeds paid to a charity are not subject to income taxes, probate costs, and other expenses, the charity can count on receiving 100% of your gift.

What are the possible tax benefits?

Giving life insurance to a qualified charity also has certain income tax benefits. Depending on how you structure your gift, you may be able to take an income tax deduction of the premium payments.

Charitable income tax deductions may be available if the charity is named owner and beneficiary of an existing life insurance policy. You can generally deduct the lesser of your cost basis in the policy or the value of the policy at the time of the transfer to the charity. In addition, subsequent gifts to the charity to pay premiums may be eligible for charitable income tax deductions in the year the gifts are made. You may also receive a charitable income tax deduction if you buy a new policy naming the charity as owner and beneficiary. Also, irrevocable gifts to charity are not subject to federal gift tax. There may also be estate tax benefits where either the policy is not included in your estate, or you receive a federal estate tax deduction.

Are there disadvantages to charitable gifting of life insurance?

Donating a life insurance policy to charity (or naming the charity as beneficiary on the policy) means that you have less wealth to distribute among your heirs when you die. This may discourage you from making gifts to charity. However, this problem is relatively simple to solve. You could consider buying another life insurance policy that will benefit your heirs instead of a charity.

2023 Charitable Giving, by Source

In 2023, Americans gave \$557.16 billion to charity.

Source	Percentage	Amount (in billions)
Individuals	67%	\$374.40
Foundations	19%	\$103.53
Bequests	8%	\$42.68
Corporations	7%	\$36.55

Source: Giving USA, June 25, 2024

How can life insurance be given to a charity?

The simplest way is to name a charity as beneficiary of your life insurance policy. Most policies allow you to name multiple beneficiaries, so you could split the death benefit between individuals, such as family members, and a charity. If the policy is a form of cash value life insurance, you still have access to the cash value of the policy during your lifetime. However, this type of charitable gift does not provide many of the income tax benefits of charitable giving, because you retain control of the policy during your life. When you die, the proceeds are included in your gross estate, although the full amount of the proceeds payable to the charity can be deducted from your gross estate.

You may donate an existing life insurance policy to charity. To do this, you must assign all ownership rights in the policy to the charity. You must also deliver the policy itself to the charity. By doing this, you give up all control of the life insurance policy. This strategy provides the full tax advantages of charitable giving because the transfer of ownership is irrevocable. You may be able to take an income tax deduction, and the policy may not be included in your gross estate when you die.

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

Two Tax-Friendly Retirement Plans for the Self-Employed

As a business owner, you may devote most of your time, energy, and profits to running and growing your business. But working for yourself means that saving money for retirement is entirely up to you.

This is not the only reason it may be worthwhile to divert a sizable portion of your earnings to one of these tax-deferred retirement accounts. Doing so could significantly reduce your taxable income.

Solo 401(k)

A solo 401(k) is a one-participant plan for business owners who have no employees (other than a spouse). As the employee, you can contribute as much as 100% of your annual compensation on a pre-tax basis, up to the \$23,000 annual maximum in 2024 (\$30,500 if you are age 50 or older). As the employer, you can also contribute an additional 20% of your earnings (25% if the business is incorporated) and deduct it as a business expense. Total contributions are capped at \$69,000 in 2024 (\$76,500 if age 50 or older).

A solo 401(k) plan may also allow plan loans and/or hardship withdrawals.

The deadline to establish a solo 401(k) and formally elect salary deferrals is December 31 of the year in which you want to receive the tax deduction (or before fiscal year-end for corporations). For businesses taxed as sole proprietors and partnerships, salary deferrals and profit-sharing contributions for 2024 must be

deposited into the account by the April 15, 2025, tax filing deadline* (October 15 if an extension is filed).

SEP IRA

If you are self-employed, you can contribute 20% of net earnings, up to \$69,000 in 2024, to a Simplified Employee Pension (SEP) plan. A SEP IRA may also be an appropriate choice for business owners with a small number of employees for whom they would like to provide retirement benefits. All employees age 21 and older who have worked for the employer for at least three of the last five years must be included. The plan may exclude employees earning less than \$750 in the current year.

The same percentage of salary (up to 25% of compensation or \$69,000) must be contributed to each eligible employee's SEP IRA, including the owner's. However, the business is not required to contribute every year. You have until the due date of your business's federal income tax return (including extensions) to set up a SEP IRA and make contributions.

Distributions from 401(k) plans and SEP IRAs are taxed as ordinary income. Early withdrawals (prior to age 59½) may be subject to a 10% federal income tax penalty.

*In Maine and Massachusetts, the tax filing deadline is April 17, 2025, due to state holidays.

At Cannon Financial Institute, Inc., the program materials and instructor presentations are intended to provide program participants with ideas and guidance in the areas of planning, administration, and management. They are intended to stimulate thought and discussion. The materials and the instructor comments do not constitute, and should not be treated as, legal or other professional advice regarding the use of any particular planning technique, audit or compliance measure, policy, procedure or other such application of the information provided, or the tax consequences associated there with. Although every effort has been made to ensure the accuracy of the materials and the comments at the program, Cannon Financial Institute, Inc., and each instructor, individually, do not assume responsibility for any participant's reliance on the written or oral information disseminated during the program. Each program participant should independently verify all statements made in the materials and comments made at the program before applying them to a particular fact situation. Each participant should independently determine the tax, nontax, legal and fiduciary liability consequences of using any particular information before recommending that technique to their institution, its management, its board of directors, a client or implementing it on a client's behalf. The materials and the instructor comments should not be utilized as a substitute for professional service in specific situations. If legal, accounting or other expert assistance is required, the services of such a professional should be sought.