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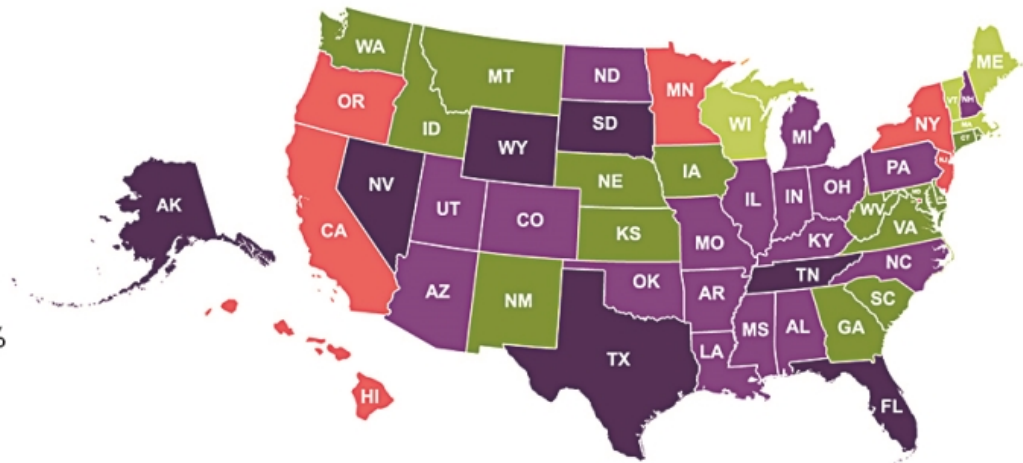


## State Income Tax Across the Map

Seven states have no state income tax. Of the 43 states with a state income tax (and the District of Columbia), the top marginal income tax rate ranges from 2.5% to 13.3%. Most states (and D.C.) with an income tax have multiple tax brackets with graduated rates; 14 states have only a single tax rate. New Hampshire only taxes interest and dividends, and Washington only taxes capital gains.

State individual income tax: top marginal rate

-  No income tax
-  2.5% to 5%
-  More than 5% to 7%
-  More than 7% to 9%
-  More than 9% to 13.3%



Source: Tax Foundation, February 2024

# Making the Most of Your Credit Card

A growing number of Americans are moving towards a "cashless" society. As a result, credit cards are being used more often than ever — especially by those with higher incomes.<sup>1</sup>

Credit cards are no longer viewed solely as a debt instrument for cash-strapped individuals. Instead, they are prized for a variety of benefits, such as earning rewards and travel perks, protecting purchases, building credit, and gaining additional insurance coverage.

## Reap the rewards

Using a rewards credit card for everyday purchases can provide you with valuable perks. Some rewards cards will offer a percentage of cash back for every dollar spent on certain purchases (e.g., dining; travel) or the ability to apply rewards towards a statement credit. Others offer travel rewards that can be used to purchase airline miles and hotel accommodations. Certain rewards cards can even provide you with entrance into VIP airport lounges and early access to purchase tickets for concerts and sporting events. Many rewards cards offer additional sign-up bonuses, such as double cash back or bonus miles/points for new customers if you charge a certain amount on the card within a specified period of time.

The disadvantages of a rewards card are that it can often come with a higher interest rate or charge an annual fee. So if you tend to carry a balance on your card, you could end up paying more in interest than you would earn in rewards. In addition, it is important to read the fine print and fully understand the terms and conditions of the rewards offered. You'll also want to periodically check in with your card issuer to see if any of the terms and/or conditions of the offer have changed.

## Protect your purchases

One of the main advantages of using a credit card is that you have greater protection for your purchases than you would if you use cash or a debit card. If your credit card is lost or stolen, you generally are liable for no more than \$50 in fraudulent/unauthorized charges. Credit cards also come with additional fraud protection in the form of fraud alerts that are sent immediately to you by email or text message when suspicious charges are detected.

Your credit card may also provide extended warranties and/or extra purchase protection for high-cost items bought with the card, such as a TV or laptop.

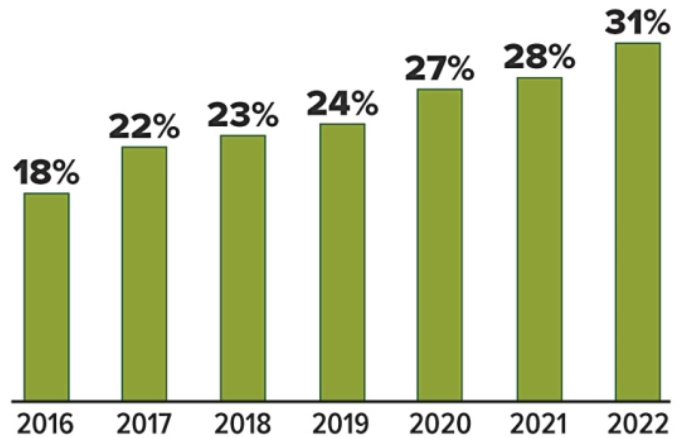
## Build your credit

Using a credit card is an excellent way to build credit and improve your credit score. There are a variety of factors that go into determining your credit score, such as your payment history, outstanding debt, and how close your balances are to their account limits.

In order to use a credit card to build and/or improve your credit, you should be sure to consistently pay your full monthly balance on time and keep your balance below your credit limit.

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## Share of payments made by credit card



Source: Federal Reserve, 2023

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## Gain additional insurance coverage

Many credit cards provide you with additional insurance coverage for particular circumstances. For example, if you use your card to rent a car, you may be covered by auto rental insurance to protect you in case of damage or theft. If you use your card to purchase a trip, it may offer travel interruption insurance if your trip is canceled for a covered reason. Your credit card may even provide coverage for a lost or damaged cell phone if you purchased your cell phone or pay your cell phone bill with your card.

## Use your card wisely

The key to making the most of your credit card is to use your card wisely and avoid falling into common credit card traps. Here are three tips for using your credit card responsibly:

- Only charge what you can afford and pay the full balance due each month.
- Avoid missing payments by signing up for automatic payments and account alerts.
- Try to keep your balance well below your credit limit.

1) Federal Reserve, 2023

# Do You Have Enough Life Insurance?

Your life insurance needs change as your life changes. When you are young, you may not have a need for life insurance. However, as you take on more responsibility and your family grows, your life insurance needs increase but then decrease after your children are grown.

You should periodically review your life insurance coverage to ensure that it adequately reflects your life situation. Here are several methods to consider in determining your life insurance needs.

## Income rule

The most basic rule of thumb is the income rule, which states that your insurance need would be equal to six or eight times your gross annual income. For example, a person earning a gross annual income of \$60,000 should have between \$360,000 (6 x \$60,000) and \$480,000 (8 x \$60,000) in life insurance coverage.

## Income plus expenses

This rule considers your insurance need to be equal to five times your gross annual income plus the total of any mortgage, personal debt, final expenses, and special funding needs (e.g., college). For example, assume that your gross annual income is \$60,000 and your total expenses are \$160,000. Your insurance need would be equal to \$460,000 ( $\$60,000 \times 5 + \$160,000$ ).

## Income replacement calculation

The income replacement calculation is based on the theory that the family income earners should buy enough life insurance to replace the loss of income due to an untimely death. Under this approach, the amount of life insurance you should consider purchasing is based on the value of the income that you can expect to earn during your lifetime, taking into account such factors as inflation and anticipated salary increases, as well as the interest that the lump-sum life insurance proceeds will generate.

## Family needs

With the family needs approach, you would purchase enough life insurance to allow your family to meet its various expenses in the event of your death. Under the family needs approach, you divide your family's needs into three main categories:

- Immediate needs at death (cash needed for funeral and other expenses)
- Ongoing needs (income needed to maintain your family's lifestyle)
- Special funding needs (college funding, bequests to charity and children, etc.)

Once you determine the total amount of your family's needs, you should consider purchasing enough life insurance to cover that amount, taking into consideration the interest that the life insurance proceeds could earn over time.

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## Choosing the Most Appropriate Policy

Here are some factors to consider when choosing a life insurance policy.

1. How much coverage do you need?
2. How long will you need the coverage?
3. How much coverage can you afford?
4. What policy riders or features might you need?
5. What is the financial strength and rating of the insurance company you're considering?

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## Estate preservation and liquidity needs

This approach attempts to calculate the amount of life insurance needed upon your death to settle your estate. This method takes into consideration the amount of life insurance required to maintain the current value of your estate for your family, while potentially providing the cash needed to cover death expenses and taxes. Using this method, you should consider purchasing enough life insurance to cover potential estate taxes, along with funeral, accounting, and legal expenses associated with the administration of your estate. The life insurance may allow you to preserve the value of your estate at the level prior to your death and to help prevent an unwanted sale of assets to pay estate taxes and related expenses.

*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.*

# What's Your Real Return?

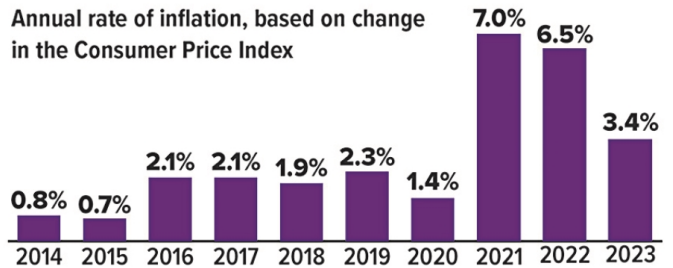
As an investor, you probably track the return on your investments. But it's likely that you look at the *nominal return*, which is the percentage increase or decrease in the value of an investment over a given period of time, usually expressed as an annual return. To estimate actual income or growth potential in order to target financial goals, such as a certain level of retirement income, it's important to consider the *real return*, which includes the effects of taxes and inflation.

Let's say you want to purchase a bank-issued certificate of deposit (CD), because you like the lower risk and fixed interest rate that a CD can offer. CD rates have risen substantially with the Federal Reserve's aggressive increases in the federal funds rate, so let's say you find a CD that offers 5% annual interest. That could be attractive. However, if you're taxed at the 22% federal income tax rate, 1.1% will be gobbled up by federal income tax on the interest.

That still leaves an interest rate of 3.9%, but you should consider the purchasing power of the interest. For example, inflation slowed to 3.4% in 2023 after hitting 40-year highs in 2021 and 2022 (see chart). But a 3.4% inflation rate would leave a real return of just 0.5%. If inflation slows further, the real return on this hypothetical CD would increase. However, if the Fed were to lower the benchmark federal funds rate in response, rates on CDs and other fixed-income investments might decline, reducing the real return on future CD and fixed-income purchases.

## Eroding Purchasing Power

Annual rate of inflation, based on change in the Consumer Price Index



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

This hypothetical example doesn't represent the performance of any specific investment, but it illustrates the importance of understanding what you're actually earning after taxes and inflation. In some cases, the lower risk offered by an investment may be appealing enough that you're willing to accept a low real return. However, pursuing long-term goals such as retirement generally requires having some investments with the potential for higher returns, even if they carry a higher degree of risk.

*The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to \$250,000 per depositor, per insured institution. All investments are subject to risk, including the possible loss of principal. When sold, investments may be worth more or less than the original cost.*

This is a resource that will answer your most important financial question, namely:

- If employed – When can I retire?
- If not employed – Can I stay retired?

Contour Financial will answer this question, suggest alternative scenarios, if needed, and implement investment strategies in order to reach your objectives.

Customized strategies are developed and implemented. Personalized service is provided by Certified Financial Planners (CFP) and/or Certified Public Accountants (CPA) to clients. Investment, retirement, tax planning & preparation, estate, insurance, cash flow and education planning are all integral parts to the process.

Contour Financial is a private wealth management business located in Orland Park, Illinois. We work primarily with middle income and wealthy clients. As a long-term National Association of Personal Financial Advisors (NAPFA) fee-only firm, all compensation is fully disclosed. For clients seeking investment management by our firm, assets are held at Charles Schwab Institutional, an industry leader.