INSIGHTS

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Founded in 1975, Ferguson Wellman is a privately owned registered investment adviser, established in the Pacific Northwest. As of January 1, 2022, the firm manages $8.2 billion for 913 clients that include individuals and families; Taft-Hartley and corporate retirement plans; and foundations and endowments with portfolios of $4 million or more.

West Bearing Investments, a division of Ferguson Wellman, serves clients with assets starting at $1 million.

Octavia Group provides fee-based personal financial services exclusively for Ferguson Wellman and West Bearing clients with a minimum of $5 million managed by our firm.

INVESTMENT EXCELLENCE
LIFELONG RELATIONSHIPS

MAKING THE MOST OF ALL YOUR BENEFITS

MARY LAGO, CFP®, CTFA
Principal
Wealth Management Chair

The role of wealth management at Ferguson Wellman and West Bearing is to help clients navigate financial and life events. Some decisions stand out and stare us in the face, but other decisions can be made in silence. In other words, we may not realize we have choices and are making a decision, or the narrowing of our options sneaks up on us over time. This quarter, we focus on common, and potentially significant, retirement and risk management decisions that should be made with intention.

One such decision is the ownership of any life insurance policies. When life insurance is being acquired or reviewed, most will consider how much coverage they need, the preferable type of coverage (term or permanent) and who to name as the beneficiaries. But there is a hidden decision in life insurance ownership that is often made silently by default.

The question of ownership may seem obscure or perhaps even irrelevant until we consider that life insurance benefits are generally taxable in the estate of the owner. That means if you are the owner of your life insurance policies and your benefits push you over the federal estate tax exemption, your heirs' benefits will likely be reduced by a 40% federal estate tax, in addition to any state level estate taxes.*

Spouses benefit from an unlimited marital deduction so if an insured spouse dies first, the benefits will not be subject to estate taxes. In the event the beneficiary spouse dies first, and the proceeds are ultimately distributed to other heirs, the benefits will be taxable in the estate of the insured/owner. For this reason, families may choose to name others as the owner of policies.

However, ownership has its privileges, and the insured may wish to reserve these rights for themselves. The owner of a life insurance policy can change the named beneficiaries, borrow against the policy or even terminate the policy. For individuals trying to avoid estate taxation of life insurance benefits while ensuring the policy continues to function as desired, an irrevocable life insurance trust (ILIT) may be a useful solution to evaluate with your tax and legal advisors.

**The current federal estate tax exemption is $12.06 million and is slated to be reduced by 50% effective January 1, 2026. State estate tax exemptions and rates vary. Oregon has the lowest exemption amount of $1 million and Washington has the highest top rate at 20%.*

Our Ferguson Wellman logo is based on a bronze coin of Marcus Aurelius Antoninus, emperor of Rome from A.D. 161 to 180. According to historian Edward Gibbon, he was the only person in history in which, "the happiness of a great people was the sole object of government." Marcus Aurelius was the author of a series of personal writings and meditations that revealed a mind of great humanity, natural humility and wisdom.

SOCIAL SECURITY SPOUSAL BENEFITS

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A COMMON MISUNDERSTANDING ABOUT SOCIAL SECURITY IS THAT NON-WORKING spouses are ineligible for a benefit. Your Social Security benefit is based on your highest 35 years of earnings, but if your work history is limited, or your spouse earned significantly more, you may get more money from spousal benefits. This can be true if you are married, divorced or widowed.

MARRIED

Spousal benefits are based on your spouse's earnings record, instead of your own. For married couples, you generally must have been married for at least one year, be age 62 or older and your spouse must have filed for his or her own benefit to be eligible.

The spousal benefit can be as much as half of the higher-earning spouse's benefit at their full retirement age (between age 66 to 67 depending on your birth year). The exact amount will depend on several factors, including your age and your and your spouse's work history. If only one spouse worked, the calculation is straightforward. If both spouses worked, however, the lower-earning spouse will be entitled to the greater of their own benefit, or half of their spouse's full retirement age benefit. For example, Jack and Rose each have a Social Security benefit based on their own work history. Jack's benefit at his full retirement age is $2,000. Rose's benefit at her full retirement age is $800. Assuming they file at their full retirement age, Jack will receive $2,000 and Rose will receive the greater of her own benefit or half of Jack's benefit. In this case, half of Jack's benefit is greater than her own benefit, resulting in a $1,000 benefit for Rose. To get to that $1,000, Rose will receive her own benefit first, then Social Security will top off that amount with an excess spousal benefit to get to the $1,000.

It is important to note, a spousal benefit cannot be more than 50% of the higher-earning spouse's full retirement benefit, even if you or your spouse delay claiming past your full retirement age. However, it can be less.

Spouses who file for a spousal benefit before reaching their full retirement age will receive a permanently reduced benefit. Continuing the example above, if Jack's benefit is $2,000, but Rose had no work history, she can still collect a spousal benefit of $1,000 at her full retirement age. However, if she files for her spousal benefit early, at age 62, she may receive as little as 32.5% of Jack's benefit, or $650.

Entitlement and Eligibility Rules for Spousal Benefits	
Benefit Amount: 50% of worker's benefit	
Entitled	
Married	**Divorced**
Worker must have filed for his/her own benefit Must have been married for at least 1 year Must still be currently married	Worker must be at least age 62 Must have been married for at least 10 years, currently unmarried, and divorced for at least 2 years
Eligible	
Full benefit at Full Retirement Age (FRA) Can start as early as age 62 No delayed retirement credits past FRA	

Source: Michael Kitces

The laurel is part of our Octavia Group branding. Octavia the Younger was one of the most prominent women in Roman history. She was respected for her nobility and humility. Octavia was hailed as a "marvel of womanhood" and was a political advisor between her brother and husband. She was immune from the "tutela," which placed in her the unique position of managing her own finances.

DIVORCED

Benefits for ex-spouses are the same as benefits for current spouses. To be eligible, you must have been married for at least 10 years and must currently be unmarried. If your ex-spouse has not applied for benefits yet, you can receive a spousal benefit on his or her record if you have been divorced for at least two years and you are both at least age 62.

In simple terms, a surviving spouse will receive the higher of their own benefit or the benefit of their late spouse. In fact, if you were already receiving a spousal benefit, in most cases Social Security will automatically switch you to the survivor benefit.

Another common misconception is that claiming a benefit based on a spouse or ex-spouse's earning record will impact the other spouse's benefit. Taking a spousal benefit does not reduce the amount a current spouse, ex-spouse or ex-spouse's current spouse may receive.

WIDOW/WIDOWER

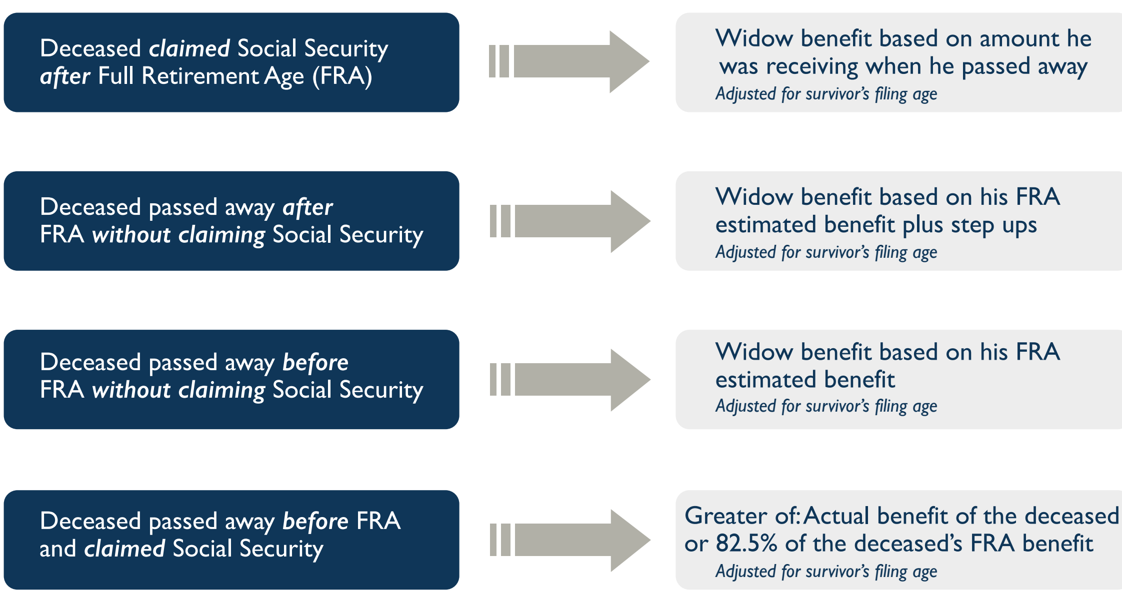
Many surviving spouses are eligible for Social Security benefits. Unlike spousal benefits, a surviving spouse may collect up to 100% of the deceased spouse's benefit. To be eligible, you must have been married for at least nine months (or 10 years for former spouses) and be at least age 60, although there are exceptions to these rules. Additionally, a subsequent marriage can affect eligibility. If you remarry before age 60, you become ineligible, although you regain eligibility if that marriage ends. If you remarry after you reach age 60, your new marriage will not affect your eligibility.

In simple terms, a surviving spouse will receive the higher of their own benefit or the benefit of their late spouse. In fact, if you were already receiving a spousal benefit, in most cases Social Security will automatically switch you to the survivor benefit.

Determining the amount of the benefit is more nuanced. The calculation is based on what age the deceased spouse filed for benefits, if at all, and the age the surviving spouse files.
The chart (below) illustrates the amount of survivor benefits in various scenarios.

While there are fewer Social Security filing strategies today, one remains for survivors. If a surviving spouse is also eligible for their own benefit, but has not yet applied, they can file for either their own benefit or the survivors benefit now and switch to the other (higher) benefit later.

In conclusion, there are several rules to be aware of when it comes to Social Security, certainly more than we could include here. Working as a team, spouses have additional choices that may significantly boost their combined benefit. Ferguson Wellman and West Bearing have tools to help you evaluate your Social Security filing options and will gladly assist you in developing a plan to meet your needs.



EVALUATING LONG-TERM CARE INSURANCE

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Did you know that 64% of men and 75% of women will need some form of long-term care during their lives? Long-term care is a broad term that includes many types of care including in-home assistance, occupational therapy and nursing home care due to a chronic illness, disability, or injury. In some cases, the care is provided by family and friends, often at little to no cost to the patient, but in many cases professional care is necessary. The cost can be significant depending on the type and duration of care required and where the patient lives.

Long-term care insurance can aid in covering these costs but determining whether to obtain or maintain long-term care insurance, the most suitable benefit structure, and the right provider for each individual should be evaluated with consideration to your unique circumstances. Some people elect to forgo long-term care insurance and decide to “self-insure” or rely on their assets to cover any care costs. Others elect to purchase insurance to ensure there are funds available for the kind of care they want, or so their children don’t exhaust themselves to minimize costs or to preserve their assets for their partner or heirs.

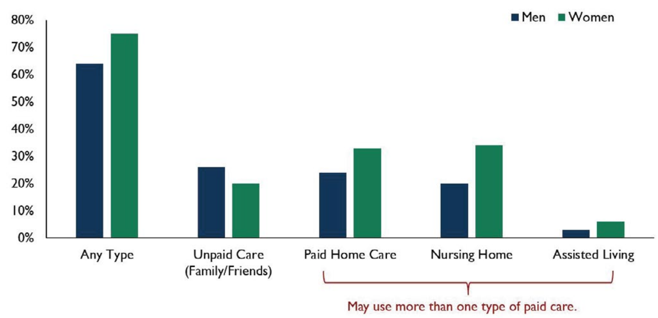
Long-term care insurance can be particularly valuable for married couples who have sufficient, but not excess, resources and are looking to ensure that the cost of one partner’s care does not sacrifice the resources of the other spouse.

The optimal time for most individuals to purchase long-term care insurance is between 50-65 years of age. Starting the process early will allow additional time to work with qualified professionals, potentially resulting in a more optimized solution. Delaying will likely mean higher premiums and increase the risk of a disqualifying health care event.

A few of the key factors to consider when evaluating long-term care insurance policies are the cost of the policy, the amount of coverage provided, the waiting period, and any additional terms or riders. The amount of coverage provided is often expressed as a daily or monthly maximum benefit and includes a lifetime maximum benefit. The waiting period, or the time between needing care and when the policy starts providing benefits, is typically 90 days but can vary. Optional riders that can be added to customize the policy to best suit your needs may include inflation protection, spousal benefits, or alternate care settings.

One common concern when it comes to long-term care insurance is what happens if you never need the policy? One solution is to purchase a hybrid long-term care life insurance policy or purchase a long-term care policy with a return of premium rider. These options can provide peace of mind that the premiums are not lost if the policy is never activated.

Lifetime Probability of Needing Assistance with Two or More Daily Activities



Source: U.S. Department of Health and Human Services

Many factors influence the cost of a long-term care insurance policy including your age, health, gender, marital status and state of residence. Insurance companies rely on actuarial data to support these differences. For example, women have longer life expectancies and have higher needs for long-term care than men on average, so they pay more for similar policies.

Everyone should have a plan for how they will cover the costs of a long-term care event. Working with your portfolio manager, in collaboration with an insurance professional, can help you determine if that plan should include purchasing or maintaining long-term care insurance.