THE LEGACY INSIDER

Newsletter of the Legacy Financial Group

GREETINGS FROM JOSH & PHOEBE

Happy spring, Legacy friends and family! Now that the winter months are behind us and tax season is ending, we have some exciting news and updates to share with you all.

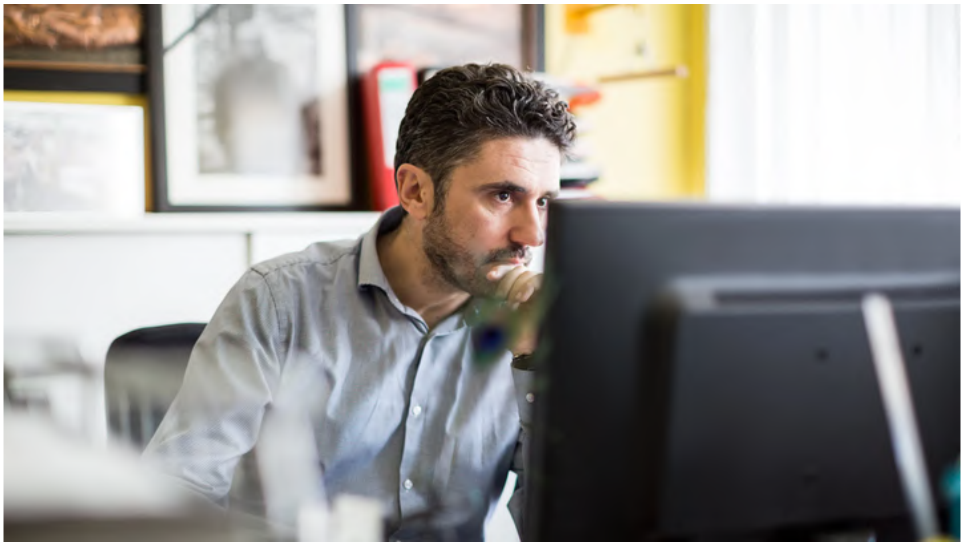
Phoebe and her family are welcoming a baby girl on May 30th! Details regarding her maternity leave and what you can expect can be found on page 8.

More exciting news to share: We've added a new member to our team, Delaney McCutcheon! Delaney's role on our team as a Financial Representative Assistant is to meet with and assist current clients. She will also aid in the onboarding of all new clients. Meet and get to is to meet with and assist current clients. She will also aid in the onboarding of all new clients. Meet and get to know Delaney in depth on page 8. know Delaney in depth on page 9.

In this edition of "The Legacy Insider", you will find updates and our thoughts for the market, information pertaining to the taxation of inheritance, and important considerations when planning to leave a legacy.

As always, we are here as a resource to you. Please let us know how we can help!

Josh & Phoebe



The Latest Data Suggests an End to Rate Hikes May Be in Sight

BRENT SCHUTTE, CFA | APR 17, 2023

Brent Schutte, CFA, is Chief Investment Officer of the Northwestern Mutual Wealth Management Company.

Equity markets moved higher last week despite some selling pressures on Friday due to growing fears the economy may slip into recession in the coming months. Regular readers of our weekly commentaries will know that we consistently advocate that investors view the steady stream of economic data out each week in the context of how it fits together and to evaluate it in light of whether it is consistent with current trends, suggests a change in direction or may simply represent a one-off anomaly.

Taken as a whole, the data out last week offered more evidence that the disinflationary process (the slowing of price growth) is gaining momentum, while the economy continues to show signs of cooling. Perhaps nowhere was the trend more evident than in the latest Consumer Price Index (CPI) report.

The latest release shows that headline inflation grew at just 0.1 percent in March; prices rose 5 percent on a year-over-year basis, marking the slowest 12-month increase since May 2021. The readings reflect a decline from February's monthly gain of 0.4 percent and year-over-year reading of 6 percent.

It’s worth noting that, once again, shelter was the driving force of the increase in headline readings, with shelter costs up 0.6 percent for the month and 8.2 percent on a year-over-year basis. While still elevated, March’s shelter reading marked the smallest monthly increase since November 2022. As a reminder, shelter has a large and lagging effect on inflation readings in services (shelter accounts for 33 percent of the total CPI measure and has around a 12-month lag). All-in CPI when excluding the lagging shelter component was down 0.2 percent month over month on a seasonally adjusted basis and is now up just 0.5 percent in total over the past nine months (0.67 percent on an annualized basis).

While the headline readings show continued progress in the fight against inflation, some in the financial press called out the core CPI reading as a sign that inflation remained too hot. Here again, we believe it is more valuable to evaluate the data in relation to prior reports as well as economic readings beyond CPI. The latest release shows that core CPI, which excludes volatile gas and food prices, rose 0.4 percent month over month in March and 5.6 percent year over year. While still elevated, it’s important to note that the latest year-over-year reading ties January as marking the slowest 12-month increase since December 2021. Importantly, the rate of price increases for services cooled to 0.4 percent for the month, down from February’s reading of 0.6 percent. Services inflation is now up 7.1 percent over the past year, down from February’s year-over-year reading of 7.3 percent. However, as with the headline reading, the core number looks far different when the lagging shelter category is removed. Core CPI excluding shelter over the past six months is up just 1.8 percent on an annualized basis and over the past nine months is up 2.7 percent on an annualized basis. The steady decline is noteworthy, as services inflation figures have been cited as a sticking point in the battle to bring down price pressures as consumer demand has transitioned during the past year from goods to services.

The latest CPI report, as well as other data released last week, reaffirms our belief that the Fed has room to pause its rate hiking cycle and has room to cut rates later this year should the economy contract faster than what the current consensus estimates are a mild downturn. While members of the Federal Open Market Committee may still feel compelled to raise rates an additional 25 basis points during its May meeting, we believe barring any surprises, the move would likely mark a final increase before the committee pauses the current rate hiking cycle. This belief is reinforced by the minutes from March’s Fed meeting, which included an assessment by Fed staff that a recession is likely to occur later this year.

Wall Street Wrap

While CPI captured the lion’s share of attention last week, additional reports suggest that the trend of easing inflation and a slowing economy will continue in the coming months.

Input costs edge lower: Producer input final demand costs declined 0.5 percent in March, according to the latest Producer Price Index (PPI) from the Bureau of Labor Statistics. Final demand goods prices dropped 1 percent, while services costs were down 0.3 percent. Core PPI, which excludes volatile food and energy readings, was up 0.1 percent month over month. On a year-over-year basis, core PPI came in at 3.6 percent, down 0.9 percentage points from February’s reading of 4.5 percent. The latest number continues what has been a downward trend that began following the March 2022 red-hot increase of 1.6 percent. Month-over-month readings have declined in three of the past four months, with January being the lone exception. Year-over-year unadjusted readings have logged steady declines from a March 2022 reading of 11.7 percent to just 2.7 percent in the latest report.

The index measures price increases for finished goods leaving the factory. Given that, it is generally a forward-looking measure of where prices for consumers are headed. As the costs producers face for finished goods continue to ease, we expect to see further price relief for consumers at the retail level.

Jobless claims rise: Weekly jobless claims moved higher again last week with 239,000 new claims filed, up from the prior reading of 228,000. The four-week moving average of claims, which smooths out some of the weekly volatility of the measure, came in at 240,000, marking the second highest level since November 2021 (the March 25 four-week average was 242,000). Continuing claims (those people remaining on unemployment benefits) remain elevated at 1.810 million. While the figure is down from 1.823 million the prior week, it's still well above the level of 1.289 million recorded in September 2022. We view the higher level of continuing claims as an early sign of softening in the labor market as it becomes more difficult for job seekers to land positions.

Business inventories creep higher: U.S. business inventories were up 0.1 percent in February, according to a release from the U.S. Commerce Department this week. The latest reading comes on the heels of a decline of 0.6 percent in January. On a year-over-year basis, inventories are now up 11.6 percent from February 2022. Likewise, inventories-to-sales figures also increased, rising to 1.37, up from February 2022's reading of 1.24. With inventories steady or inching higher, businesses are unlikely to see a resurgence of pricing power soon.

Long-term inflation expectations remain anchored: The latest consumer sentiment survey released by the University of Michigan shows long-term inflation expectations remain well anchored, with respondents expecting inflation to come in at 2.9 percent annually in the next five to 10 years. The latest figure marks the fifth consecutive month of consumers expecting price increases to be below 3 percent in the intermediate term.

Independent businesses are less optimistic: The latest data from the National Federation of Independent Business shows optimism among small business owners slipped 0.8 percent in March to 90.1, marking a three-month low for the measure. The latest reading is the 15th consecutive monthly reading below the long-term historical average of 98. As optimism declined, so too did hiring expectations, which reached the lowest point since May 2020.

The week ahead

Monday: A week heavy on housing reports kicks off mid-morning with the Home Builders Index from the National Association of Home Builders.

Tuesday: We will get March housing starts and building permits from the U.S. Census Bureau. This data, along with the Homebuilders Index released on Monday, will provide insights on whether consumers can expect greater housing inventory in the months ahead.

Wednesday: The Federal Reserve will release data from its Beige Book. The book will provide recent anecdotal insights into the nation's economy and will highlight emerging regional economic trends.

Thursday: We'll get a look at existing home sales mid-morning by the National Association of Realtors. This report, along with the new homes data released earlier in the week, should provide a clearer picture of whether the rapid cooling of the real estate market has stabilized.
Initial and continuing jobless claims will be announced before the market opens. Initial filings dropped last week, and we will be watching for signs that the employment picture is weakening.

Friday: We'll get an update on the health of manufacturing and services in the U.S. when S&P Global releases its Flash Purchasing Manufacturers Index reports for April. Activity for manufacturing continues to show weakness; however, the services side has shown signs of treading water. We will be watching for signs that growth on the services side has begun to wane.

Follow Brent Schutte on Twitter and LinkedIn.
Commentary is written to give you an overview of recent market and economic conditions, but it is only our opinion at a point in time and shouldn't be used as a source to make investment decisions or to try to predict future market performance. To learn more, click here.
There are a number of risks with investing in the market; if you want to learn more about them and other investment-related terminology and disclosures, click here.

TIM STOBIERSKI | APR 20, 2023

What to Know About Taxes on Your Inheritance

If you are preparing to leave a legacy to your heirs in the form of an inheritance, or perhaps you stand to inherit some money from a loved one — it's only natural to wonder about the different ways that inheritances can be taxed.

Below, we take a closer look at some commonly asked questions about inheritance taxes and what you can do to reduce your tax burden.

Are inheritances taxed?

Whether or not your inheritance is taxed, and how much it is taxed, will depend on several different factors, including:

- Which state do you live in? There is currently no federal inheritance tax, and only six states tax inheritances: Iowa, Kentucky, Maryland, Nebraska, New Jersey, and Pennsylvania. In 2021, Iowa repealed its inheritance tax and is in the process of phasing it out by 2025. Maryland charges both an estate and an inheritance tax. If you live in one of these states and receive an inheritance, you may be required to pay taxes on that inheritance.
- How much you inherit. Most states exempt inheritances up to a certain amount. If you receive an inheritance under the exempt limit, you may owe nothing in taxes.
- Your relationship to the deceased individual. Spouses and children of the deceased may be exempt from paying inheritance taxes, depending on the state.

How much is the inheritance tax?

As mentioned above, the exact tax rate that you will pay on your inheritance will vary depending on where you live, how much you inherit, and your relationship with the deceased individual. Here is a look at inheritance tax rates by state:

1. Iowa: 0-15 percent
2. Kentucky: 0-16 percent
3. Maryland: 0-10 percent
4. Nebraska: 0-18 percent
5. New Jersey: 0-16 percent
6. Pennsylvania: 0-15 percent

Estate tax vs. inheritance tax

Inheritance taxes and estate taxes are two related, but different, means of taxing the assets of an individual who has passed away.
An inheritance tax is imposed on an individual who inherits assets from a deceased individual. Unlike the estate tax, it is paid by the inheritor at the time of inheritance. Here is a list of how each state taxes estates and inheritances.
An estate tax is a tax imposed on the estate of a deceased individual. Twelve states as well as the District of Columbia impose an estate tax. It is paid by the estate's executor. The good news is that in 2023, the federal estate tax, which has a top tax rate of 40 percent, generally only applies to assets over $12.92 million. This means most estates won't owe any federal estate tax. The tax will only be levied on the portion of the estate's value that exceeds the $12.92 million exemption. That exemption applies to individuals, which means a couple gets double that amount.
While you must have significant wealth before you will owe federal estate tax, your home state's tax laws may be a different story. While some states don't have an estate tax, others do — and each state that has one has different rates and exemptions.

Some key points to remember include:

- There is a federal estate tax, but no federal inheritance tax.
- States can charge an estate tax, an inheritance tax, or (rarely) both.
- Not all states have estate taxes or inheritance taxes.

Other considerations with inheritance taxes

1. If you inherited retirement accounts
Even if you're exempt from an estate or inheritance tax, it's possible that you'll owe income taxes on certain inherited retirement accounts because qualified retirement accounts such as traditional 401(k)s or IRAs have never been taxed. Beneficiaries who receive these accounts typically must take distributions (withdrawals) from them and pay taxes on the distributions. How much you're required to withdraw depends on several factors, including how much is in the account and whether the person who passed it on had already started taking distributions.

Again, when it comes to spouses, different rules apply. A spouse can retitle a retirement account if they were listed as the designated beneficiary — basically making it their own, which allows them to take distributions based on their own situation. They could also opt to take distributions based on when the deceased owner would have reached 73, the age at which a retirement account owner must start taking required minimum distributions (RMDs). (In 2033, the age will increase from 73 to 75, per the SECURE 2.0 Act.)

2. If you inherited a death benefit from a life insurance policy
If you are the beneficiary of a life insurance policy and your loved one dies, you will receive the policy's death benefit. This death benefit is typically exempt from both state and federal taxes—including income taxes--but there may be some instances where taxes become required. For example, if you choose not to receive an immediate payout of the death benefit and instead opt to leave the sum with the life insurance company for a period of time, it will most likely continue to accrue interest. You may be required to pay income taxes on this newly generated interest.

E3. Inheritance basis step-up
When investments and property are inherited, there's some good news from a tax perspective: Many inherited investments receive what's known as a step-up in basis. Here's how it works.

Let's say you buy investments for $10,000 (which is your cost basis). If you sell the investment in the future for $19,000, you might owe capital gains tax on $9,000 (your gain). (Whether or not you'll own capital gains tax will depend on your tax bracket.) But if you pass away and leave the investment to an heir, that person will get a "step-up" in cost basis — to $19,000, the amount you pass on. That means they can sell the investment for $19,000 without owing any tax.

Likewise, if you're inheriting investment assets, your cost-basis essentially resets to the date of death market value of the assets, which can translate into massive tax savings.

(Note: Not all assets get this step-up, as it could vary on the asset type and how the asset is owned.)

Managing taxes on your inheritance

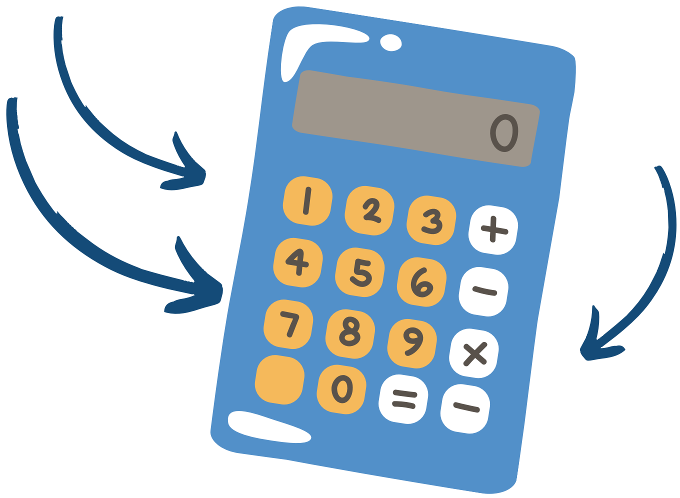
While these are the general rules around how an inheritance is taxed, this is a complicated area of tax law. If you are planning on leaving an estate to your heirs, or you will inherit money from a loved one, consider working with a qualified financial advisor, tax advisor, and estate attorney who can help you build a plan to minimize taxes and maximize the inheritance that gets passed on.

Protect Yourself from the Unexpected!

Wondering if what you currently have for coverage is enough to meet your needs? Use the calculators below to see if your needs have been met.

Click here to access Life Insurance Calculator.

Click here to access Disability Insurance Calculator.



See how your savings today could help you make the most of every day when you retire.

Click here to access the Retirement Calculator

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A++
AAA, Aaa, and AA+—we've earned the highest financial strength ratings awarded to life insurers from all four major rating agencies.[3]

Top 10
We're one of the top U.S. Independent Investment Broker-Dealers.[2]

$6.8B
in dividends expected to be paid in 2023[4]

No. 1
Best life insurance company for consumer experience, 2022[1]

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[1] Ranking for Northwestern Mutual Investment Services LLC. Measured by 2020 Revenue. Sources: Financial Advisor magazine and InvestmentNews, April 2021.

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[3] Northwestern Mutual continues to have the highest financial strength ratings awarded to any U.S. life insurer by all four of the major rating agencies: A.M. Best Company, A++ (highest), 6/22, Fitch Ratings, AAA (highest), 8/22, Moody's Investors Service, Aaa (highest), 12/22, S&P Global Ratings, AA+ (second highest), 7/22. Third-party ratings are subject to change. Ratings are for The Northwestern Mutual Life Insurance Company and Northwestern Long Term Care Insurance Company.

[4] Dividends are reviewed annually and are not guaranteed.

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Dear clients and friends,

My family and I have exciting news to share. We will be expecting baby number three on May 30th - a baby girl by the name of Kaia Story! My plan is to be in the office and meet with as many of you as possible up until May 19th. I will then be taking some time to be with my family and returning in August. Please know our team is here to be a resource. They will be monitoring my email inbox to ensure proactivity in connecting with me.

Should any urgent matters arise while I'm away, please connect with the team:

- **Morgan Sargent**, Director of Client Experience · (617) 531-9577 · morgan.l.sargent@nm.com
- **Grace Baggott**, Director of Operations · (617) 531-9588 · grace.baggott@nm.com
- **Josh Cohen,** Partner · (617) 531-9606 · joshua.cohen@nm.com
- **Delaney McCutcheon**, Financial Representative Assistant · (617) 531-9577 · delaney.mccutcheon@nm.com

Should you wish to meet while I am out to discuss existing coverage or if you require updates to your planning, Delaney and Josh will be available.

Additionally, there are several things you can accomplish by using our client website:

- View your account, contract, and/or policy information.
- Sign up for E-Delivery.
- Access Insurance Billing Account servicing, including managing your bank accounts and paying bills.
- View various policy/account documents, including important tax documents.
- Make a one-time deposit to a brokerage or an advisory account.
- Aggregate your non-NM accounts to see your net worth as a whole.
- Assign information sharing: Managing people who can obtain policy, contract, or account information.

If you have not set up your account yet, we encourage you to do so by heading to **https://www.northwesternmutual.com/home/** (You may also scan the QR code above.) Then, click "Log In" at the top right corner of the page. From there, you can select register and follow the prompts. If you have any questions, please reach out to our team!

I am confident that you will be in excellent hands during my leave. Thank you all for your support and well wishes, and I look forward to seeing you upon my return!

Kind regards,

Phoebe Story

MEET DELANEY!

Please welcome our newest member to the Legacy Family, Delaney McCutcheon! She lives in St. Petersburg, FL with her two roommates and Scottish Fold named Elio. Outside of work, Delaney likes to play sand volleyball, spend time outside, try new bars and restaurants, and travel. She has lived in Thailand, Australia, and South Korea so far! Delaney attended the University of South Carolina and is an avid Carolina fan. Go cocks!

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