

**Q4 2022**

## QUALIFIED PLAN NEWS

CAPITAL MARKETS REVIEW			PERIOD ENDING DECEMBER 31, 2022			
Index	Qtr	Ytd	1 Yr Return	3 Yr Return	5 Yr Return	10 Yr Return
S&P 500 TR USD	7.56	-18.11	-18.11	7.66	9.42	12.56
Russell 2000 TR USD	6.23	-20.44	-20.44	3.10	4.13	9.01
Russell 3000 Value TR USD	12.18	-7.98	-7.98	5.88	6.50	10.16
Russell 3000 Growth TR USD	2.31	-28.97	-28.97	7.32	10.45	13.75
MSCI ACWI Ex USA NR USD	14.28	-16.00	-16.00	0.07	0.88	3.80
Bloomberg US Agg Bond TR USD	1.87	-13.01	-13.01	-2.71	0.02	1.06
FTSE Treasury Bill 3 Mon USD	0.87	1.50	1.50	0.71	1.25	0.74

## MARKET COMMENTARY

The U.S. equity market gained 7.2% during the quarter but ended the full-year down 19.2%. Stocks advanced in October as investors reacted positively to strong corporate earnings, primarily from energy companies. U.S. stocks continued to advance in November after comments made by Fed Chairman Jerome Powell seemed to indicate that future interest rate increases may be less aggressive. Those sentiments reversed course in December with weaker year-end equity performance.

Value stocks exceeded growth stocks by 9.9 percentage points in the quarter. Strong relative performance from the energy and financials sectors drove the segment's outperformance. For the 1-year period, value outperformed growth stocks by 21.0 percentage points. Energy was the best performing sector with favorable performance driven by top sector constituents Chevron and Exxon, with each recording strong quarterly earnings. For the second-straight year, the energy sector produced the largest return for the trailing 1-year

period. Defensive sectors such as utilities, consumer staples, and health care fared better than economically sensitive sectors during the fourth quarter and calendar year.

International stocks gained 14.3% in the quarter. Developed market stocks outperformed emerging market stocks by 7.6 percentage points as falling oil and natural gas prices detracted from energy-producing emerging market economies. For U.S.-based investors, almost every country posted positive returns in the period, as the U.S. dollar weakened for the first time since June 2021. Despite two additional interest rate increases by the European Central Bank, developed Europe returned 19.3% return in the quarter. European stocks advanced as rising inflation appeared to show signs of weakening and unseasonably warm weather eased concerns of potential energy shortages during the winter. The UK posted a return of 17.0%, which was in line with the majority of non-U.S. developed market peers. Japanese (+13.2%) and Chinese (+13.5%) stocks both trailed the broader market. However, China outperformed most of its emerging market peers as optimism grew that its government would loosen their strict zero Covid policies in response to growing domestic unrest.

Preliminary estimates from a subset of core equity real estate managers indicates a negative return of approximately 5% for the quarter. An increase in discount rates and moderating rent growth expectations, coupled with increased transaction activity which provides comparable sales to appraisers, contributed to property valuation declines. REITs rebounded with the stock market during the quarter but remained one of the year's worst performing sectors.

The U.S. fixed income market returned 1.9% in the quarter, concluding the year with a return of -13.0% — making it the worst recorded return in U.S. history. The Fed raised its target Fed Funds range from 4.25% to 4.50% during two quarterly meetings. Fed officials expect additional rate increases at future meetings to further combat inflation but anticipate pausing rate hikes in 2023 after softening its economic projections. The 10-year treasury yield ended the quarter at 3.88%, representing an increase of 0.05 percentage points from the previous quarter and an increase of 2.36 percentage points for the year. Municipal bonds returned 4.1% as yields declined across the curve. TIPS advanced 2.0%, outperforming nominal treasuries. Inflation expectations

increased as indicated by the 10-year breakeven inflation rate, ending the quarter at 2.30% versus 2.15% at the end of the prior quarter, but retreating from its highs earlier in the year. The realized annual Consumer Price Index was 7.1% through November 2022.

## CONTROLLING HEALTH CARE COSTS

**Reducing health care costs is a high priority for many business owners, yet the decision to do so often forces them to make difficult decisions regarding the benefits they can offer to employees.**

Rapidly rising health care costs have fueled a growing sense of urgency among many small-business owners to find ways to reduce health care costs without dropping such coverage completely. With that in mind, strategies to help reduce company health care expenses include: offering high-deductible health plans and health savings accounts (HSAs), shifting costs and cutting benefits, and providing employee wellness programs.

Business owners and employees consider employer-sponsored health insurance to be one of the most important workplace benefits. Yet skyrocketing costs are making it more difficult for small businesses to attract and retain skilled workers with health insurance.

As a result, there is a growing sense of urgency among many small-business owners to find ways to reduce health care costs while meeting the mandates set forth in the Affordable Care Act. Here are some strategies you may want to consider to help reduce your business's health care expenses:

### HIGH-DEDUCTIBLE PLANS AND HSAS

High-deductible health plans (HDHPs) are designed to drive down health care costs by placing more of the responsibility and cost burden on consumers, in effect, forcing them to be more cost conscious when choosing medical care. Like traditional health care plans, HDHPs usually cover a wide range of medical and prescription costs — but only after a steep annual deductible has been paid. Such deductibles range from \$1,500 for individual coverage to \$3,000 for family coverage, depending upon the plan.



HDHPs are often used with HSAs — tax-preferred savings accounts that are used to fund qualified medical expenses. Workers or their employers make tax-free contributions to an HSA; the employees use the funds to purchase medical care until they reach their deductibles.

## HSAS AND EMPLOYEE ELIGIBILITY

Your employees are eligible for an HSA if they meet four qualifying criteria:

- Are currently enrolled in a qualified HDHP
- Are not covered by another disqualifying health plan (whether insurance or an uninsured health plan)
- Are not eligible for Medicare benefits
- Are not a dependent of another person for tax purposes

The maximum contribution to an HSA for 2023 is \$3,850 for employees with single coverage, or \$7,750 for those with family coverage. Workers over age 55 can contribute an additional \$1,000 in 2023 regardless of whether they have single or family coverage. Such contributions are made on a before-tax basis, meaning they reduce taxable income. Unlike IRAs and certain other tax-deferred investment vehicles, no income limits apply to HSAs.

A health reimbursement account (HRA), on the other hand, must be funded by an employer — not by a contribution of employee income. Employees with HRAs receive tax-free reimbursement for qualified medical expenses up to a maximum amount.

## SHIFTING COSTS AND CUTTING BENEFITS

Employers who want to continue providing health care benefits within the same general framework of their existing, traditional health insurance programs often face the prospect of reducing their costs by sharing expenses with employees and/or reducing available benefits. For example, employers may opt to raise employee premiums or deductibles, or place a limit on certain types of benefits, such as coverage for routine doctor's appointments.

However, employee backlash could be significant, so it's important to explain that the changes are necessary to maintain the overall fiscal well-being of the company. You may also want to consider offering other benefits designed to make up for the implementation of a

less-generous health insurance policy. For example, if reducing your contribution to health insurance premiums, you may want to consider enhancing long-term care and disability benefits to compensate.

In some cases, business owners may even offer to help bridge the gap between the old health care benefits package and the new one. For example, an employer who raises the deductible for inpatient hospital care may offer to pay the difference in the event an employee is hospitalized.

## WELLNESS PROGRAMS

Businesses often offer wellness programs such as:

- Smoking cessation
- Health or fitness challenges
- Web-based resources for healthy living
- Health risk assessments such as biometric screenings
- Disease management programs
- On-site exercise facilities
- On-site stress-reduction activities
- A health advocacy service

While the goal of a wellness program is admirable — to reduce health care costs by fostering healthier lifestyles among employees — the programs aren't without potential drawbacks. For example, a wellness program that rewards (or penalizes) workers based on arbitrary health benchmarks may be deemed discriminatory. A program that emphasizes education is likely to be less controversial than one that singles out individual workers for praise or admonishment.

## PLANNING TO EXIT YOUR BUSINESS

**A business succession plan can help ensure that your business will continue to operate when you are no longer involved and facilitate a smooth transition to its new owners.**

Starting a business requires determination, hard work, and a willingness to take risks. Owners of successful small businesses are passionate about what they do and proud of what they have accomplished. And it's often for these same reasons that small business

owners find it hard to even consider a future that does not involve running their business. However, business owners who implement an exit plan are more likely to control the terms and the circumstances of their departure than those who do not create a plan.

A business succession plan can help ensure that your business will continue operating after you are no longer involved and facilitate a smooth transition to the individuals who will assume control over its operations. A succession plan can also help maximize the value of the company and ensure that your heirs' legacy is protected.

## **WHAT A SUCCESSION PLAN SHOULD ACHIEVE**

An effective succession plan should be structured with these primary goals in mind:

- Protect the value of the company and its ability to compete
- Achieve the owner's retirement goals
- Reduce the potential for conflict among family members
- Minimize gift and estate taxes

To help increase the likelihood of achieving these goals, focus on the following key elements:

## **DETERMINE THE VALUE OF YOUR BUSINESS**

Even if you don't intend to exit your business soon, consider having a professional appraiser conduct a business valuation. Knowing the value of your business

will help you plan for your retirement and the eventual transfer of wealth. Moreover, the process of establishing a value for your business can help you identify the factors that are driving its growth. The quicker you identify these value drivers, the more time you will have to cultivate them and boost your firm's value.

## **CRAFT A BUY-SELL AGREEMENT**

A buy-sell agreement is a legal agreement between the owners of a business that details what will happen to each owner's interest in the business should the owner retire, become disabled, or die. With a buy-sell agreement in place, you can be confident that family members or other beneficiaries will receive a fair price for your business interest. In addition, a buy-sell agreement can help facilitate an orderly transition and continuous management of the firm.

## **MENTOR THE NEXT GENERATION**

As part of your planning, identify individuals with leadership potential, and spend time mentoring them. If you'd like one or more family members to assume control of your business eventually, then your succession plan should provide specific details on how that will be accomplished. In addition, your plan should outline what roles, if any, other family members will play in the business.

Be sure to work closely with your financial professional during the early stages of the planning process. This can help ensure that your succession plan covers all the bases and protects the value of your business.

## WEB RESOURCES FOR PLAN SPONSORS

### Internal Revenue Service, Employee Plans

› [irs.gov/ep](https://irs.gov/ep)

### Department of Labor, Employee Benefits Security Administration

› [dol.gov/ebsa](https://dol.gov/ebsa)

### 401(k) Help Center

› [401khelpcenter.com](https://401khelpcenter.com)

### BenefitsLink

› [benefitslink.com](https://benefitslink.com)

### Plan Sponsor

› [plansponsor.com](https://plansponsor.com)

### Plan Sponsor Council of America

› [psca.org](https://psca.org)

### Employee Benefit Research Institute

› [ebri.org](https://ebri.org)

S&P 500 is a commonly used measure of common stock performance. Russell 2000 is a commonly used measure of small capitalization stocks. Russell 3000 Value measures performance of U.S. equity universe broad value segment with lower price-to-book ratios and lower forecasted growth values. Russell 3000 Growth measures performance of Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth values. MSCI ACWI EX U.S. tracks 850 stocks traded in 22 world markets (excludes U.S. based stocks). Barclays U.S. Aggregate Bond Index tracks domestic investment grade bonds (including corporate, government, and mortgage-backed securities). Citigroup 3-Month U.S. Treasury Bill Index tracks short-term U.S. government debt instruments. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.

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