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MONTHLY **NEWSLETTER**

Tenaglia & Associates, SC

Financal Things Society Does Not Teach Well, But Sells Well

What most people never learn in school or from their financial institutions

Most people grow up hearing "**save your money**" and "**invest for the long term**," but almost nobody learns how to actually do it within our education systems.

- **What inflation actually does to idle cash**
- **How fees quietly eat returns**
- **How much account structure can change the tax picture.**

The Points Are Simple

- **Learn what happens behind the scenes.**
  - Not everything is bad, and not every fee is unreasonable — but too many people move money for years without a clear picture of what they are actually paying, what they are actually earning, and what the money can still buy.
- **Most of the financial world is for-profit.**
  - That is not a criticism; it simply means much of what feels like advice is also, in part, a sale — presented in a nicer package.
- **Without a solid grasp of the basics, you are 'negotiating' blind.**
  - It is a lot like buying a car without knowing the fair price: you may drive off happy, but you have no way to tell whether you got a good deal — or a lemon.

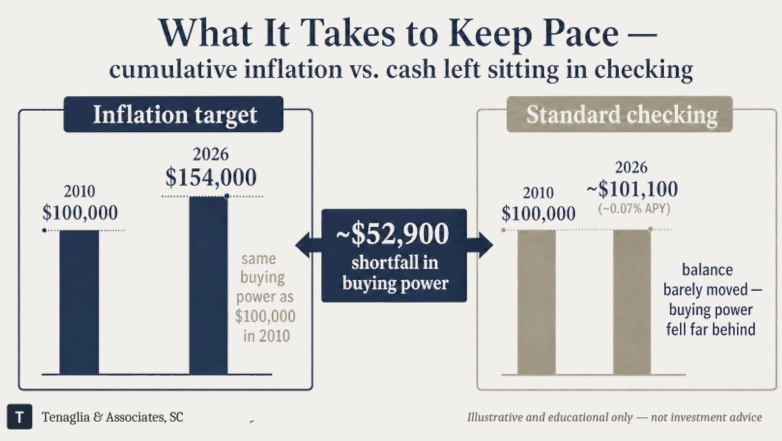
1 Cash Is Not Neutral

Idle cash can quietly lose buying power

Holding cash in checking may feel safe, but too much idle cash can lose buying power when inflation rises faster than the interest being paid.

Why this matters

- The number in the account may stay the same — the buying power may not.
- If inflation is higher than the account rate, the **real return is negative**.
- That is true even when the account feels "safe."



The takeaway

- Safe from market swings and safe from inflation are two different things.
- A stable balance can still lose ground every year that prices rise faster than the yield.

What "real return" actually means:

- Real return is what money gained *after* inflation.

2 Banks Make Money on the Spread

Convenience and yield are not the same thing

Simple example: $100,000 held for one year, before tax

- Typical checking (interest-checking) ≈ 0.07% → about $70 earned
- Typical basic savings at big banks ≈ 0.01–0.10% → about $10–$100 earned
- Typical money market / strong savings today ≈ 3–4% → about $3,000–$4,000 earned

Total difference: roughly $2,900–$3,930 more interest on $100,000 that still needs to stay liquid.

Interest on these is generally taxed the same at the federal level, unless you deliberately choose a municipal money market default.

- **Banks use deposits profitably** — that is the business model. Many checking and traditional savings accounts pay very little while the institution still earns on that money in other ways.
- More interest can also increase taxable income and, in some cases, AGI — so the wider tax picture still matters. This does not mean every dollar should leave the bank; it means too much cash sitting dead has a real cost.

3 Emergency Funds Do Not Have to Sit Dead

Liquidity and zero yield are not the same idea

Emergency money still needs liquidity — but liquid does not have to mean earning nothing. The goal is matching each dollar to how soon you might need it.

Common places people hold cash

- **Checking** — day-to-day spending cash.
- **Savings** — short-term reserves.
- **CDs** — for money you can lock up for a set term in exchange for a stated rate.
- **Higher-yield savings, Treasury options, or brokerage money-market funds** — for part of a reserve, depending on liquidity needs and risk tolerance.

A note on Certificates of Deposits (CDs)

- Generally FDIC-insured when held at an insured bank and within limits.
- Rates vary by term, institution, and market conditions.
- Higher rates usually come with less liquidity, because the money is tied up for a set term.

4 The Market Right Now

A quick snapshot of where rates and inflation stand

MARKET SNAPSHOT — EARLY JULY 2026

Fed funds	3.50–3.75%	CPI inflation	~3.8%
1-yr CD — all-bank average	~2.0%	1-yr CD — top online	~4.0–4.4%
Savings — all-bank average	0.38%	Savings — top online	~4.5%
3-month Treasury bill	~3.7%		

These figures move constantly and are shown only to frame the sections that follow. They are national reference points, not offers or predictions.

5 Small-Business Vehicles Most People Only Half Hear About

The financial world is too quick to stop at "just use an IRA"

For many small businesses, an IRA is the starting point — not the whole conversation. These plans generally require earned income; for the self-employed, the IRS bases contributions on net earnings from self-employment. Passive rental income is usually reported on Schedule E, so owners with rentals need the right balance of passive vs. active income and the right structure over time.

Traditional or Roth IRA

- Often the starting point, not always the best end point.
- 2026 IRA limit is $7,500.
- Age 50+ catch-up: extra $1,100 (total $8,600).
- Roth eligibility phases out by income — 2026 single $153k–$168k, joint $242k–$252k.

Roth 401(k) feature

- Not a separate plan — a Roth contribution feature inside a 401(k).
- Matters when the future tax-free qualified withdrawal beats today's deduction.
- New for 2026: if prior-year wages with the employer topped $150,000, age-50+ catch-ups must be made as Roth.
- Plan document and provider capability matter.

SIMPLE IRA

- Common for very small employers; lower administrative load.
- 2026 employee limit $17,000 (certain plans $18,100).
- Age 50+ catch-up: +$4,000. Age 60–63: +$5,250 super catch-up.

Solo 401(k) / One-Participant 401(k)

- Useful for owner-only businesses that qualify under IRS rules.
- Contributions as both employee and employer.
- 2026 employee deferral limit $24,500.
- Age 50–59 / 64+: +$8,000 (to $32,500). Age 60–63: +$11,250 super catch-up (to $35,750).
- Combined employee + employer additions capped at $72,000 (before catch-up).

SEP IRA & Roth SEP update

- Simpler than many 401(k) plans; generally employer-contribution driven.
- 2026 limit: lesser of 25% of compensation or $72,000 (comp cap $360,000).
- No age-based catch-up on SEP contributions.
- SECURE 2.0 opened the door for Roth treatment of SEP contributions — real-world use depends on custodian support.

HSA (if paired with an HDHP)

- Not a retirement plan, but a triple-tax-advantaged account many owners overlook.
- 2026 limits: $4,400 self-only / $8,750 family.
- Age 55+ catch-up: extra $1,000.

New: Trump Account employer contribution programs

- Beginning July 4, 2026, employers may contribute up to $2,500 per employee, per year, to an employee's or dependent's Trump Account through a written program.
- Based on the current guidance, and if structured properly, the amount may be excluded from the employee's taxable income.
- Not a replacement for a retirement plan — but a supplemental family-oriented benefit

6.1 The True Cost of Where Your Money Sits

Typical costs, how each is taxed, and the risks that don't show up on a statement

THE MAIN POINT

Every financial vehicle carries three things worth understanding that may effect the return: costs, risks, and tax exposure.

This guide lays out typical ranges for each — for educational purposes only — so you can ask informed questions. It is not a recommendation of any product or strategy. Risks are not comprehensive and other risks may exist based on one's finanical situation.

FUNDS & ETFs

CATEGORY	TYPICAL COSTS	TAX NOTE	TYPICAL RISKS
Broad index mutual funds	~0.03–0.20%/yr; core funds often 0.05–0.10% [1,2]	Dividends/gains taxable yearly.	• Market & inflation risk • Small tracking error
Broad index ETFs	~0.03–0.25%/yr; equity avg ~0.14% [1,3]	Often more tax-efficient; still taxable.	• Market risk • Price vs. NAV drift
Sector / specialty funds & ETFs	Often 0.40–1.50%+/yr [2,3]	More trading = larger taxable gains.	• Market & Concentration risk • Liquidity risk (niche)
Active equity mutual funds	~0.40–1.00%/yr; some >1.5% [2,1]	Larger, less-predictable gain payouts.	• Market & Manager risk • Style drift
Bond & money-market funds	Bond ~0.30–0.70%; MM ~0.20–0.30%/yr [1,2]	Interest ordinary income (non-Muni); bond gains = capital gains.	• Market/Rate/credit risk (bond) • MM not FDIC-insured

CASH & SAVINGS

CATEGORY	TYPICAL COSTS	TAX NOTE	TYPICAL RISKS
Standard checking	• Most pay 0%; • Low yield: national avg 0.07% APY [5] • Maintenance/overdraft fees common	Interest is ordinary income (1099-INT $10+).	• Inflation risk is the big one at ~0% yield • Fee drag can exceed interest
Bank CDs	• No stated fee — bank earns the spread. • Early w/d penalty 3–12 mo. interest. • All-bank avg ~2.0% vs. top ~4.0–4.4% [4,5]	Ordinary income when credited.	• Illiquid until maturity • Inflation can outpace yield
Brokered CDs	Dealer markup built into yield	Ordinary income; sale before maturity = gain/loss.	• Often callable — issuer can redeem early • Resale market can be thin
High-yield savings / MMA	Bank earns deposit spread. Avg 0.38–0.46% vs. top ~4.0–4.5% [4,5]	Ordinary income yearly.	• Rate is variable, bank-set • Inflation risk on cash
U.S. Treasuries (direct)	$0 at TreasuryDirect; 3-mo bill ~3.7% [6,7]	Exempt state/local; taxable federal.	• Rate risk if sold early • Reinvestment risk at rollover

6.2 The True Cost of Where Your Money Sits

Typical costs, how each is taxed, and the risks that don't show up on a statement

INSURANCE PRODUCTS

CATEGORY	TYPICAL COSTS	TAX NOTE	TYPICAL RISKS
Indexed universal life (IUL)	• Internal drag often ~2–4%+/yr [10]. • Surrender charges 10–15 yrs	• Growth tax-deferred; • Gain above basis is ordinary income if surrendered or lapsed • Death benefit generally income-tax-free	• Insurer can lower caps/participation rates after purchase — only the floor is guaranteed • Level (Option A) design: cash value not paid on top of death benefit • Lapse risk if underfunded as cost of insurance rises with age • Surrender charges limit access in early years
Whole life	• 1st-yr commission 40–110%+ of premium [9]. • ~5–10% of lifetime premiums → commissions. • Cash value ~$0 in yrs 1–3	• Growth tax-deferred; • Gain above basis is ordinary income if surrendered or lapsed • Death benefit generally income-tax-free	• Beneficiary typically gets death benefit only — insurer keeps the cash value • Heavily front-loaded costs; often 10+ years to break even • Dividends are not guaranteed • Surrender charges limit access in early years
Term life (non-smoker)	~$100–$300+/yr per $100k [11]	Death benefit generally tax-free.	• No cash value — pure protection, nothing to access • Coverage ends if premiums stop • Renewal after the term costs far more (or requires new underwriting) • Outliving the term means it paid out nothing
Deferred, non-qualified annuity	All-in often ~1.5–3%+/yr [12]. Surrender charges often 5–10 yrs	Tax-deferred; withdrawals = ordinary income; 10% penalty pre-59½.	• Surrender charges limit access for 5–10 years • Inflation risk erodes a fixed payout over time • Insurer credit risk — not FDIC-insured • Gains taxed as ordinary income; 10% penalty before 59½

Key Notes

- Commission built into premium pricing [ref 9].
- In most states the agent **is not a fiduciary** to the buyer (a lower "best interest"/suitability standard applies) when selling insurance products
  - **their legal duty runs to the insurer that appoints them.**
- Variable products add securities rules (Reg BI) — **still not fiduciary** unless acting as a registered investment adviser.
- **Policy loans aren't free** — you pay loan interest, and the borrowed cash value earns a reduced (or different) crediting rate, so you give up some of the gain.

7 The Tax Side Still Matters

A better result isn't only about earning more

It is also about understanding what increases taxable income, what affects AGI, what creates deductions, and what quietly leaks return through inflation and fees.

What to watch

- Cash interest can increase taxable income.
- More income can affect AGI and planning around thresholds and phaseouts.
- Retirement account structure changes *when* and *how* tax benefits show up.
- Hidden costs reduce long-term net results even when there is never a separate invoice.

A complimentary review from our firm

Educational, no-obligation — from your tax firm

If anything here raised a question about your own situation, we offer a complimentary, no-obligation tax-efficiency review. It's an educational conversation to help you better understand the fees, costs, and tax considerations that may apply to your accounts — so you can make more informed decisions. If we don't have the answers, or cannot legally provide them, we have many experts we trust in the various disciplines.

Reach out any time at tenaglia.tax or the following:

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Helpful Links & Sources

Primary sources for the figures and rules referenced in this issue

- Inflation Calculator — Federal Reserve Bank of Minneapolis
- IRS — One-Participant 401(k) Plans
- IRS — Retirement Plans for the Self-Employed
- IRS — About Schedule E (Form 1040)
- IRS — Newsroom (2026 Retirement Plan & IRA Limits)
- Investor.gov — Money Market Funds
- Investor.gov — Cash Sweep Programs
- SIPC — What SIPC Protects
- Vanguard — What Is an Expense Ratio?
- ICI — Trends in the Expenses and Fees of Funds, 2025
- IRS — Newsroom (Trump Accounts Guidance Release)
- 26 U.S. Code § 128 — Employer Contributions
- 26 U.S. Code — Title 26 (General "Accounts" references)

Disclosures

- This newsletter is for general educational purposes only and does not constitute individualized tax, legal, payroll, investment, insurance, accounting, or financial-planning advice, nor an offer or solicitation of any product or service. It may not reflect the most current laws, regulations, thresholds, or institutional policies. Tenaglia & Associates, SC is not a registered investment adviser and does not provide investment advice or recommendations regarding the purchase or sale of any security.
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- Any discussion of cash management, money-market funds, ETFs, mutual funds, CDs, insurance-based products, annuities, brokerage platforms, retirement vehicles, advisory arrangements, or account structures is intended solely to explain general financial and tax mechanics. It is not a recommendation or solicitation to buy, sell, open, or implement any specific account, fund, policy, transaction, or relationship, and no statement here is a projection or guarantee of any outcome. Readers should consult qualified professionals who can consider their individual circumstances before making decisions.

Happy Independence Day. Here's to educating yourself and earning your financial freedom.

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Thank you for reading!