IT'S ASCENTIAL TO KNOW

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IN THIS ISSUE

Impact of Rising Housing Costs in Financial Planning

Real estate assets - whether primary residences, vacation homes, or investment properties - are often significant components of a financial plan as both assets and expenses. While these assets offer growth potential, they also carry unique risk factors. Recent trends are reshaping the real estate landscape and challenging financial planning assumptions. While it is uncertain whether they will persist, we remain cautious about the potential for continued cost increases to place pressure on budgets and financial plans.

We have outlined some of the most significant trends in this article and will continue to monitor their implications for financial planning going forward.

REAL ESTATE INFLATION

In the aftermath of the 2008–2009 Great Recession, the U.S. housing market experienced a steady recovery, with the median home sale price reaching $290,000 by early 2020 (Bankrate, 2025). Then with the onset of the COVID-19 pandemic in March 2020, there was a surge in demand for housing due to low interest rates, fiscal stimulus, and opportunities for remote work. This demand surge was met with limited housing supply, causing a sharp increase in home prices, with the median sale price rising above $435,000 by the summer of 2023 (Bankrate, 2025).

Since then, higher interest rates have slightly cooled the housing market, but structural supply side issues still persist. As of January 2025, the median home price was $418,489 (Bankrate, 2025). Builders have continued to face elevated costs and labor shortages, and many homeowners are reluctant to sell due to the favorable mortgage rates secured prior to rates rising in 2022. Mortgage rates remain nearly double pre-pandemic levels, with 30-year mortgage rates averaging 6.67% as of April 2025 (Bankrate, 2025). These conditions have sustained a tight housing market and continue to pose significant affordability challenges for prospective buyers.

Planning Consideration:
Rising home valuations can place added financial strain on current homeowners and prospective buyers through increased insurance premiums, real estate taxes, and mortgage costs. While sellers might benefit from higher sale prices, they also face greater timing and pricing risks as valuations rise. We recommend clients review their financial plans to account for these rising costs and evaluate the full range of expenses when considering new real estate purchases.

ASCENTIAL WEALTH ADVISORS

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Rising Housing Costs in Financial Planning (cont.)

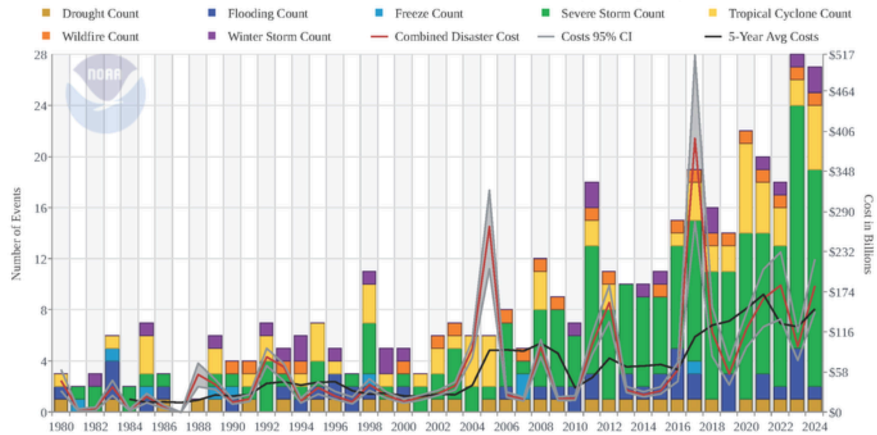
PROPERTY INSURANCE TRENDS

The cost of homeowners insurance has increased sharply in recent years, rising 37.8% since 2019, with the sharpest annual increase of 11.4% in 2024 (Lending Tree, 2024). This spike is driven by the increasing frequency and severity of extreme weather events and the rising cost of rebuilding and repairing homes.

Weather Events

Hurricanes, floods, droughts, and wildfires are becoming more frequent and destructive, contributing to a sharp rise in billion-dollar disaster events, as shown in the chart to the right. In 2024 alone, the US sustained 27 extreme weather events or natural disasters exceeding $1 billion each in losses, totaling $182.7 billion in damages (NOAA, 2025). As weather-related damage costs increase, insurance companies are raising premiums to cover both actual and anticipated weather-related losses.

United States Billion-Dollar Disaster Events 1980-2024



Source: NOAA, 2025

Construction Costs

Construction material costs have increased by 40% since February 2020 (Construction Dive, 2025) driven by supply chain disruptions and ongoing material inflation. Total construction costs have also been impacted by a persistent, industry-wide labor shortage as experienced workers retire. These rising costs are directly impacting homeowners insurance twofold:

- <u>Higher coverage limits:</u> to ensure policies adequately cover the full cost of repair or replacement
- <u>Higher premiums:</u> as insurers adjusts rates to reflect increased construction costs

Coverage Changes

In addition to raising premium expense, cost pressures are prompting insurers to adjust policy structures in ways that put additional risk and expense back on to the homeowner.

- Wind and hail deductibles are increasingly set as a percentage (typically 1-2%) of the home's insured value rather than a flat dollar amount.
- Insurers are narrowing eligibility for replacement cost coverage, particularly for older roofs, which may now only qualify for actual cash value reimbursement. This shift reduces claim payouts and increases out-of-pocket costs for homeowners.
- As flood risk expands nationwide, more properties are being designated within flood zones, requiring the purchase of separate flood insurance policies and further increasing the total insurance burden.

> **<u>Planning Consideration:</u>**
> *The rapidly rising cost of insurance and home repairs may also require adjustments to assumptions in financial plans. We recommend clients review current insurance coverage, explore cost-saving options through policy or carrier changes, and factor insurance expenses into any new real estate decisions.*

HOMEOWNER'S ASSOCIATION (HOA) COSTS

Real estate properties that are part of Homeowners Associations (HOAs) have also felt the pressure of rising costs and had to adjust fees accordingly. The dues HOAs collect from residents have increased to cover the higher costs of routine maintenance, repairs and insurance for the development. In addition, the reserve funds HOAs maintain for long-term capital improvements and major repairs may be insufficient to cover higher expense, and special assessments on property owners may be needed to make up the difference.

> **<u>Planning Consideration:</u>**
> *HOA dues and special assessments have been rising faster than the general inflation rate we typically assume in financial planning. We encourage clients to include these costs in their budgeting and consider them when evaluating the affordability of new real estate purchases.*

Addition to the Ascential Wealth Team

Emilee Manley
Client Service Manager

We are excited to welcome Emilee Manley to the Ascential Wealth team! Emilee joined us in February 2025 and will be serving as a Client Service Manager alongside Lori and Barb. She joins us with an extensive background in customer service, and we look forward to having you meet her. Here is a little more about Emilee.

WHAT DID YOU DO PRIOR TO AWA?

I graduated from Northwood Technical College in Superior, WI, with an associate's degree in Business Management and a technical diploma in Customer Service Management. My job roles have always had a customer service focus, including my most recent position as the First Assistant Manager at the Maurices store in Duluth, MN. My biggest priority is making authentic connections with people and delivering excellent customer service.

WHY AWA?

I knew right after meeting the team at AWA that I would enjoy working with them. The welcoming atmosphere and shared passion to do great work made it clear I would thrive here, and I was excited to continue doing what I love - building meaningful relationships with clients and providing genuine support to meet their needs.

WHAT DO YOU LIKE TO DO OUTSIDE OF AWA?

I currently live in Duluth, and I love exploring all the trails and nature this area has to offer with my boyfriend. I love being outside, especially during the summer, and my favorite place to go is the beach. I also love cooking, baking, crocheting, listening to podcasts, and spending time with my friends and family.

Digital Legacy Planning

Digital legacy planning is the process of organizing your digital assets and determining how your digital footprint would be managed after of your death or incapacitation. An often-forgotten part of estate planning, your digital asset planning should align with your overall legacy planning, just as you would with your physical possessions.

WHY IS IT IMPORTANT?

- **Protects** your digital assets from unauthorized access, misuse, or loss
- **Allows you to decide** what happens to your digital legacy and ensure that your wishes are followed
- **Eases the burden** on loved ones by providing instructions and access

PLANNING STEPS:

- **Inventory:** list all digital accounts and assets (including social media, photos and videos, cloud storage accounts and more)
- **Define:** decide what should happen to each (delete, transfer, memorialize)
- **Research:** research options for each account and asset (work directly with the platform for information on options)
- **Choose:** establish settings within each platform or device and appoint a trusted person to carry out your wishes
- **Instruct:** provide access details and management instructions

Common Digital Assets to Consider

- **Password Manager Apps** *often allow you to set up emergency access or account sharing with your trusted person.*
- **Google Accounts (photo storage, email, calendars)** *uses "Inactive Account Manager" to share data or automatically notify specified contacts.*
- **Apple devices and accounts** *allow you to assign a Legacy contact for access to photos, messages, and backups.*
- **Facebook** *allows you to choose a Legacy contact to manage a memorialized profile.*

In today's digital world, your online presence is part of your legacy. As a critical part of your estate plan, digital legacy planning helps bring clarity, security, and peace of mind to you and your loved ones.

Social Security Changes for Public Employees - The Social Security Fairness Act of 2025

The Social Security Fairness Act of 2025 was signed into law early in 2025 and eliminated two types of legacy Social Security benefit restrictions for people who earned a public or government pension. The specific restrictions changed were the Windfall Elimination Period and the Government Pension Offset. The changes are retroactive to January 2024. The employee groups that may be affected include teachers, firefighters, police, state and local government employees, retired federal employees hired prior to 1984, and anyone who earned a benefit under another country's pension system.

▶ CURRENT EMPLOYEES

Public employees who are still working should incorporate these updates into their financial plan and retirement income planning. Information regarding benefits eligibility and estimated payments can be found on the Social Security Administration website (ssa.gov).

▶ CURRENT RETIREES

Retirees already receiving social security benefits have been or will be paid for missed payments back to the retroactive date, with ongoing payments automatically adjusted. Those who have applied but are not yet receiving benefits should contact the Social Security office to confirm their status and ensure their contact information is up to date in case of any changes to eligibility or benefits.

For further information or to see if your benefits are impacted, please reference the Social Security Administration website (ssa.gov) or contact your local Social Security Administration office, professional association, or reach out to your financial advisor.

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