Summer 2021

Financial planner

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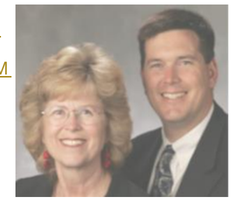
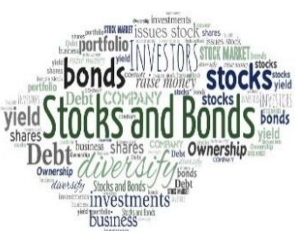




Rising Inflation – Where Will It Go from Here?

In March 2021, the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.6%, the largest one-month increase since August 2012. Over the previous 12 months, the increase was 2.6%, the highest year-over-year inflation rate since August 2018. (By contrast, inflation in 2020 was just 1.4%.)[1]

The annual increase in CPI-U — often called headline inflation — was due in part to the fact that the index dropped in March 2020, the beginning of the U.S. economic shutdown in the face of the COVID-19 pandemic. Thus, the current 12-month comparison is to an unusual low point in prices. The index dropped even further in April 2020, and this “base effect” will continue to skew annual data through June.[2]

The monthly March increase, which followed a substantial 0.4% increase in February, is more indicative of the current situation. Economists expect inflation numbers to rise for some time. The question is whether they represent a temporary anomaly or the beginning of a more worrisome inflationary trend.[3]

Measuring Prices

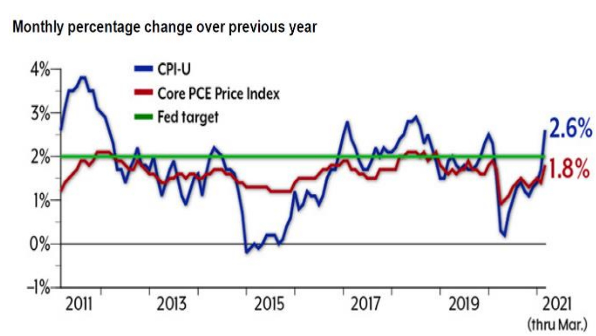
In considering the prospects for inflation, it’s important to understand some of the measures that economists use.

CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of prices consumers pay if they buy the same items over time, but it does not reflect changes in consumer behavior and can be unduly influenced by extreme increases in specific categories. Nearly half of the March increase was due to gasoline prices, which rose 9.1% during the month, in part because of production interruptions caused by severe winter storms in Texas.[4]
Core CPI, which strips out volatile food and energy prices, rose 0.3% in March and just 1.6% year over year.[5]

In setting economic policy, the Federal Reserve prefers a different inflation measure called the Personal Consumption Expenditures (PCE) Price Index, which is even broader than the CPI and adjusts for changes in consumer behavior — i.e., when consumers shift to purchase a different item because the preferred item is too expensive. More specifically, the Fed looks at core PCE, which rose 0.4% in March and 1.8% for the previous 12 months, slightly higher than core CPI but still lower than the Fed's target of 2% for healthy economic growth.[6]

Consumer Price Spike

Although the Consumer Price Index (CPI-U) spiked in March, the core PCE Price Index — the Fed’s preferred inflation measure — remained below the 2% target for healthy inflation.



Sources: U.S. Bureau of Labor Statistics, 2021; U.S. Bureau of Economic Analysis, 2021

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Child Tax Credit Expanded

An estimated 40% of the **126 million households** in the United States **have children under the age of 18**, or **50 million households**. An estimated 90% of the 50 million households (**45 million**) will qualify for the **expanded Child Tax Credit (CTC)** per the American Rescue Plan Act of 2021. The **new CTC** could pay **$300 per month per child under age 6** and **$250 per month per child between ages 6-17** beginning July 1. Please consult a **tax expert** for details (source: Tax Policy Center, BTN Research).

A Hot Economy

Based on the core numbers, inflation is not yet running high, but there are clear inflationary pressures on the U.S. economy. Loose monetary policies by the central bank and trillions of dollars in government stimulus could create excess money supply as the economy reopens. Pent-up consumer demand for goods and services is likely to rise quickly, fueled by stimulus payments and healthy savings accounts built by those who worked through the pandemic with little opportunity to spend their earnings. Businesses that shut down or cut back when the economy was closed may not be able to ramp up quickly enough to meet demand. Supply-chain disruptions and higher costs for raw materials, transportation, and labor have already led some businesses to raise prices.[7]

According to the April Wall Street Journal Economic Forecasting Survey, gross domestic product (GDP) is expected to increase at an annualized rate of 8.4% in the second quarter of 2021 and by 6.4% for the year — a torrid annual growth rate that would be the highest since 1984. As with the base effect for inflation, it's important to keep in mind that this follows a 3.5% GDP decline in 2020. Even so, the expectation is for a hot economy through the end of the year, followed by solid 3.2% growth in 2022 before slowing down to 2.4% in 2023.[8–9]

Three Scenarios

Will the economy get too hot to handle? Though all economists expect inflation numbers to rise in the near term, there are three different views on the potential long-term effects.

The most sanguine perspective, held by many economic policymakers including Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen, is that the impact will be short-lived and due primarily to the base effect with little or no long-term consequences.[10] Inflation has been abnormally low since the Great Recession, consistently lagging the Fed's 2% target. In August 2020, the Federal Open Market Committee (FOMC) announced that it would allow inflation to run moderately above 2% for some time in order to create a 2% average over the longer term. Given this policy, the FOMC is unlikely to raise interest rates unless core PCE inflation runs well above 2% for an extended period.[11] The mid-March FOMC projection sees core PCE inflation at just 2.2% by the end of 2021, and the benchmark federal funds rate remaining at 0.0% to 0.25% through the end of 2023.[12]

The second view believes that inflation may last longer, with potentially wider consequences, but that any effects will be temporary and reversible. The third perspective is that inflation could become a more extended problem that may be difficult to control. Both camps project that the base effects will be amplified by "demand-pull" inflation, where demand exceeds supply and pushes prices upward. The more extreme view believes this might lead to a "cost-push" effect and inflationary feedback loop where businesses, faced with less competition and higher costs, would raise prices preemptively, and workers would demand higher wages in response.[13]

Maintaining Perspective

Although it's too early to tell whether current inflation numbers will lead to a longer-term shift, you can expect higher prices for some items as the economy reopens. Consumers don't like higher prices, but it's important to keep these increases in perspective. Gasoline, jet fuel, and other petroleum prices are rising after being deeply depressed during the pandemic. Airline ticket prices are increasing but remain below their pre-pandemic level. Used cars and trucks are more expensive than before the pandemic, but clothing is still cheaper.[14] Food is up 3.5% over the last 12 months, a significant increase but not extreme for prices that tend to be volatile.[15]

For now, it may be helpful to remember that "headline inflation" does not always represent the larger economy. And with interest rates near zero, the Federal Reserve has plenty of room to make any necessary adjustments to monetary policy.

Projections are based on current conditions, are subject to change, and may not come to pass.

1, 5, 15) U.S. Bureau of Labor Statistics, 2021
2–4, 7) *The Wall Street Journal*, April 13, 2021
6, 9) U.S. Bureau of Economic Analysis, 2021
8) The Wall Street Journal Economic Forecasting Survey, April 2021
10, 13) Bloomberg, March 29, 2021
11) *The Wall Street Journal*, April 14, 2021
12) Federal Reserve, 2021
14) *The New York Times*, April 13, 2021

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3 Major Retirement Hazards to Avoid

Retirement can mean the beginning of a new life. Here are a few common dangers to avoid

Retirement planning is a tricky process, one that requires careful planning and patience. But even if you have a retirement plan with a clear set of financial and lifestyle goals, it's important to be aware of several common missteps that many fall victim to.

1 - Underestimating the costs of health care

As health care costs continue to rise dramatically, employers are shifting more weight of the costs onto their employees. More companies are beginning to drop retired workers from their health plans, and millions of Americans have no form of coverage at all.

Consequently, a common mistake made in retirement is a lack of preparation for the financial impact of health expenditures. One of the most overlooked and most expensive costs is long-term health care, which can be devastating to your financial goals. Long-term care insurance can provide some safeguards, and purchasing it early on can help lower its costs.

2 - Misjudging how long you or your spouse will live

Many underestimate the amount of assets that could be needed to last throughout their lifetimes. As medical technology improves and life expectancy increases, the odds are good that you or your spouse will live past age 90. So, it's vital that you are prepared to live longer.

3 - Presuming you'll work a long time

Baby Boomers are famous for working long, hard hours to get ahead, and most baby boomers believe that they'll be working long into retirement. But that assumption can be one of the biggest retirement mistakes they make.

Census Bureau statistics indicate the average age of retirement in America is now 63.[1] According to the 2019 Retirement Confidence Survey by Greenwald & Associates and the Employee Benefit Research Institute, just 13 percent of workers expect to retire before age 60, but 38 percent of retirees report retiring that early. Nineteen percent of workers plan to retire between 60 and 64; 33 percent of retirees retired in that age range.[2] Even if you want to work as long as you can, it may not always be possible because of circumstances such as poor health or disability, so it's vital that you plan and save for such a scenario.

Working with a financial professional and having the proper planning in a place are essential keys to a successful retirement. It's also important to keep an eye on health care costs and stay informed on issues that will affect your retirement. By focusing on the long term and being aware of common pitfalls, you can be prepared to make your retirement the best years of your life.

[1]https://smartasset.com/retirement/average-retirement-age-in-every-state
[2]https://www.ebri.org/docs/default-source/rcs/2019-rcs/rcs_19-fs-2_expect.pdf?sfvrsn=2a553f2f_4

Covid-19 Update: Vaccines, Variants, Virulence

According to Johns Hopkins University's COVID-19 Dashboard, daily case counts for the U.S. have slowed their fall and stabilized at around 67,000 per day. The good news is that the overall trend still indicates that daily cases are falling; however, the extent of the fall has slowed to a crawl. The U.S. still leads the world with just under 25% of the total cases and 20% of the total fatalities. Texas and Mississippi have decided to lift restrictions while other states are either continuing restrictions or increasing them.

Variants of the virus have started to gain footholds in the U.S. -- the most prevalent being the B.1.1.7 variant. The B.1.1.7 strain is of concern due to it being much more virulent than the original strain of the COVID-19 virus. Other variants include B.1.351, which first appeared in South Africa and reportedly can re-infect those who have already had another strain of the virus.

COVID-19 vaccination rates have steadily risen since our last reporting, doubling to two million doses per day on average. Over 92 million doses have been administered in the U.S. as of March 8, according to the Centers for Disease Control and Prevention.

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If taxes worry you, please call to set up a review. Specific strategies should involve consultation with your estate attorney and accountant.

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Approximately 76 million of those have been administered under President Joe Biden's administration. So far in the U.S. there have been no hospitalizations or deaths reported from those who have had the vaccine in their clinical trials.

3 Simple Ideas to Address the "Potential" Changes to Tax Code

Relax

If you have enough income to cover needs, let the investment risk ride and wait it out to 2024 or 2028. Administrations change as part of the democratic process.

Start giving assets away now

You can chip away at your taxable estate by giving to heirs chunks of money or assets that are just under the current gift tax exclusion of $15,000 per recipient. If you plan to give the kids money anyway, why not give all heirs a gift of that size each year and enjoy the results immediately, instead of waiting until you've passed? Gifts can be outright or go into a 529 college savings plan for children or grandchildren.

Set up a Trust to move money out of your estate

Biden has talked about – but not formally proposed – rolling back the levels at which estate taxes kick in, from today's cutoff to $23.4 million for married couples (over $11.7 million for individuals), to $7 million and $3.5 million. In any case, the current levels, created during the 2017 tax overhaul, are set to expire at the end of 2025. Certain trusts can move money out of an estate without having it count toward today's record-high levels. For example, a spousal lifetime access trust (SLAT) involves one spouse making a gift of stocks or other assets to another spouse (or children or grandchildren) via the trust. The gift laterals money out of the couple's taxable estate, allowing the transferred assets to grow in value free of estate tax.
There has been a frenzy of clients doing this amid concerns that the current exemptions will revert to their Obama-era levels

A similar benefit can be achieved with a grantor-retained annuity trust (GRAT), which lets high net worth individuals give their heirs the tax-free appreciation on assets years down the road, all while the grantor receives an annuity. With a GRAT, you goal is to get the entire original trust value paid back to you in an annuity, leaving the appreciation to transfer to your beneficiaries without incurring any gift tax.

If taxes worry you, please call to set up a review. Specific strategies should involve consultation with your estate attorney and accountant.