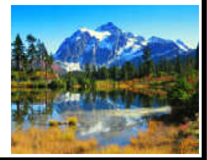
Volume XXVIII
Number 4

Personal Financial Profiles, Inc.
EST. 1989 • FINANCIAL PLANNING... A CRITICAL INVESTMENT IN TIME ™

4th Quarter
2020

Printed on Recycled Paper

*Frank*ly Speaking©



Welcome to the Q4-2020 issue of *Frank***lySpeaking**©, now in its 28th year. The purpose of this newsletter is to keep you informed of current issues and global events that could impact your finances. Please feel free to share your thoughts with us, as we welcome your comments.

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Economic and Market Commentary

The U.S. Federal Reserve's (Fed) framework review has produced some interesting insights, beyond simply allowing inflation to temporarily run above the 2% target.

The new reaction function of the Fed seems to be out of balance for both employment and inflation.

The new maximum employment goal still lacks a proper definition and structural challenges ahead could well tilt monetary policy further toward accepting moderate inflation overshoots.

The Fed had promised an "… evolution, not a revolution …" and on that, they delivered at the September monetary-policy meeting.

Keep in mind that an evolution is a developmental process from something simple to something more complex and the new framework will get far more complex. Sounds like something from the governments Department of Redundancy Department.

The 2020 forecast for real GDP growth have generally been upwardly modified to -4.6% from -6.4% considering the stronger than expected data in personal consumption, manufacturing and housing and lowered for 2021 to 3.8% from 4.2% due to a stronger base at year-end 2020.

The stronger economic activity of recent months is the result of the massive and timely policy support early in the crisis and a quick pace of reopening.

The momentum of the rebound is slowing and more fiscal stimulus is warranted if mobility restrictions, both regulatory and/or behavioral, are to continue and unemployment remains elevated. The risk of a double dip is increasing with Q4 growth possibly turning negative.

Current GDP forecast trajectory implies that COVID-19 will trim a bit more than 4% of the pre-pandemic output level by year-end 2020. Fiscal policy remains the most important force for the recovery over the short-to-medium term.

The daily average of new COVID cases in the US continues to decline, albeit at a slower pace, having averaged 61K in July, 48K in August and just shy of 40K in September.

Real personal consumption expenditures increased by 0.7% in August, making it the fourth consecutive month of growth, although slowing.

Disposable personal income is also declining, down 3.5% month-on-month in August, a clear indication that the economy needs further stimulus.

Despite the drop in income, the Conference Board's consumer confidence index increased by 15.5 points in September, the sharpest rise in 17 years, attributable in part to the strong, recovery in employment.

Manufacturing output is doing well, with a fourth consecutive month of growth at a more moderate pace. The drop in the manufacturing of motor vehicles and parts was more than offset by the increase in other durable goods.

The Purchasing Managers' Index (PMI), an index of the prevailing direction of economic trends in the manufacturing and service sectors, decreased slightly in August, but was still solidly over the set threshold value indicating an expansion of manufacturing.

The economy added 661K jobs in September and the unemployment rate fell to 7.9%. There were notable job gains in activities related to leisure and hospitality, retail trade and in professional and business services.

High-wage workers are facing 1.6% less jobs than before the pandemic, whereas low-wage workers a 16.1% drop.

Consumer spending in high-income ZIP codes is 9.6% lower than what it was pre-COVID as the nature of their spending is more focused on leisure activities and travel, while for low income earners it is up 3.6% because of its focus on essential goods and services and an effective income replacement by the various stimulus payments.

These two differing trends point to a split of the labor market and consumer spending specific to their income level.

New and existing houses increased 2.4% in August, fueled by low mortgage rates and consumer desire to move to less densely populated suburbs.

The Case-Shiller home price index increased by 4.8% in July fueled by a substantially reduced inventory and the rapidly

increasing demand for houses. After three months of double-digit month-on-month increases, housing starts, decreased in August by 5%.

Despite the fall in housing starts, the National Association of Home Builders (NAHB) confidence index rose in September to an all-time high.

Builders in the survey mentioned that the rising cost of material and delays in delivery of lumber were some impediments they were facing, driving up the cost of new construction.

On the fiscal policy front, this week, the Senate increased its stimulus proposal to a $1.5 trillion stimulus package, still shy of the $2.2 trillion that the House of Representatives was seeking.

Nonetheless, it appears that there will not be any further fiscal stimulus for the rest of 2020 given the increasing hostility of the presidential campaign, but a new package should come through in 2021.

As for monetary policy, stimulus is here to stay and the Fed is expected stay firmly in place until at least 2024, allowing for inflation to run above target for a prolonged period of time and making up for the below target levels of inflation of the past decade.

With the labor-market recovery losing momentum and extended fiscal benefits fading out, the consumer could face some hard decisions in the near term.

Personal-income data shows that some households still enjoy significantly higher than pre-crisis savings, as well as a comfortable income cushion from unemployment transfers, but only through September, before they too face financial issues.

The ultimate relief of the situation would be another round of fiscal support for households, and not just monetary support for the consumer. We need financial support for small and medium-sized businesses, as well as for state and municipalities.

It is somewhat reassuring that the Fed has given itself plenty of flexibility with respect to the resulting uncertainty for financial markets,

The Fed, once again, has promised to utilize all available tools to achieve their dual mandate.

Mortgage Rates Continue to Decline

MCLEAN, VA, October 01, 2020) (Globe Newswire) - Freddie Mac (OTCQB: FMCC) today released the results of its Primary Mortgage Market Survey® (PMMS®), showing that the average 30-year fixed-rate mortgage averaged 2.88%.

The 30-year fixed-rate mortgage (FRM) averaged 2.88% with an average 0.8 point for the week ending October 01, 2020, down from the previous week when it averaged 2.90%. A year ago, at this time, the 30-year FRM averaged 3.65%.

The 15-year FRM averaged 2.36% with an average 0.7 point, down from the previous week when it averaged 2.40%. A year ago, at this time, the 15-year FRM averaged 3.14%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 2.90% with an average 0.2 point, unchanged from the previous week. A year ago, the 5-year ARM averaged 3.38%.

As of January 1, 2016, the PMMS no longer provides results for the 1-year ARM.

(Average commitment rates should be reported along with average fees and points to reflect the total cost of obtaining the mortgage. Borrowers may still pay closing costs which are not included in the survey.)

Sam Khater, Freddie Mac's chief economist, reported that, because of low mortgage rates that have stayed under 3% since July, the housing market has seen a strong, upward trajectory during a very uncertain time.

He added that new home buyers now have more purchasing power and current homeowners have a better option to refinance their loan at a reduced rate.

However, several factors could disrupt this activity including higher home prices, low inventory and lender capacity.

The Future of Office Space

As investors are beginning to come to grips with Covid-19, many are concerned about the recent trend toward working from home (WFH) and how it will reduce the need for office space.

There are already reports that various businesses are re-evaluating their long-term real-estate plans.

During his June testimony before Congress, even U.S. Federal Reserve (Fed) Chair Jerome Powell acknowledged that Covid-19 has accelerated changes that were already happening in the workspace. He noted, "The pandemic revealed just how many offices were being run as relics of the 20th century."

This comment not only reflects the country's importance for real-estate investors, but also the abundance of data and recent research on U.S. office space.

Most the world's office workers connected virtually during the Covid-19 lockdowns at one point or the other.

In the United States and elsewhere, employees proved that work could get done even in a fully remote environment thanks to the advances in digitization over recent decades.

Most office workers have adjusted to new work routines despite the challenges that connectivity limitations and domestic space constraints have presented.

An important question is whether workers are going back to the traditional office environment or are they likely to prefer changes that allow for more remote work.

Surveys think that will largely depend on two distinct factors. Their willingness and their ability to perform their work duties remotely. These factors will ultimately guide corporate decisions around space allocation for years to come.

There are many recent surveys that have analyzed U.S. employees' desires and point to WFH is likely to be only partially adopted once the pandemic is over.

The research found that people overwhelmingly want to return to the office but would like to see significant changes.

The ability to work remotely is also a function of a company's willingness to provide for it and functional limitations that do not allow for sustained work from home (e.g. SEC regulations and compliance limitations).

In some jobs, working from home may increase the risk of data leaks and security. A recent analysis finds that only 37% of jobs in the U.S. can be performed entirely at home, with significant variation across cities and industries.

Eventually, medical solutions to the current pandemic will be found. When that happens, office workers will be able to return to their pre-Covid-19 work arrangements.

The benefits for employees are clear, including a significant time savings from a lack of commute. These time savings have been spent on additional family time, sleep, and exercise.

For the work-from-home trend to be sustainable and acceptable long-term, however, it is imperative that there be benefits to employers.

Employers will have to adopt as best they can to health guidelines until the pandemic is finally over to enable a partial return to the office. Most office space is not configured to facilitate social and physical distancing.

It might not be offices that become relicts of the 20th century. Instead, the real relicts

might be those increasingly tiny cubicles ever growing numbers of employees have had to endure during the early decades of the 21st century, before Covid-19 came along.

Source: DWS Group GmbH & Co. KGaA. Alternatives, Research and Strategy 9/30/2020

The Benefits of Working in Retirement

Retirement has previously been portrayed as an ending, a grand exit from your years in the workplace. But the rules are shifting.

Labor force participation among those aged 65-74 is projected to reach 32% by the year 2022.

As the Boomer generation ages, more people are viewing retirement as an opportunity to enjoy the rewards of work in a whole different way.

Working during retirement helps maintain mental agility as you learn new skills.

Staying engaged in work helps build mental muscle, which can lessen the risk of developing dementia and Alzheimer's and ward off the signs of aging.

Staying active during retirement years is crucial for continued health.

Whether you choose to work full time, or volunteer a few days a week, engaging in some form of work will keep your body moving and give you opportunities to stay balanced, strong and healthy.

Besides the obvious extra income, working during retirement may allow you to delay taking Social Security benefits.

For every year you wait to take Social Security, you can potentially increase your benefits an average of 8% annually.

Finding a strategy that works for you can truly pay off.

Studies have shown that a sense of purpose has been found to lengthen lifespan and quality of life.

Working on something you care about, starting a new business, or mentoring others in the workplace can ward off depression and provide a healthy sense of fulfillment and direction in your later years.

One of the risks associated with retirement is increased isolation, which in terms of its impact on your health, has been equated with smoking nearly a pack of cigarettes a day.

Working with others reduces this risk, giving you a chance to build connections and enjoy meaningful interactions.

The Real Cost of Medical Insurance

The cost of owning health insurance may be minor when compared to the price of surgeries and procedures.

Uninsured people are in for a major shock if they should end up in the hospital when it comes to the current prices for medical procedures.

A CT scan can cost between $250 to $1,500, depending on where it is performed.

The average cost of the delicate heart stent is now close to $20,000.

How about a knee replacement? (I had both replaced.) That surgery may run anywhere from $15,000 to $35,000.

And these are only the costs associated with a hospital or outpatient visit.

Now add on the cost of the room, inpatient medications and any anesthesia.

Fortunately, many Americans have health coverage, so they only will only pay a fraction of the expenses linked to these and other procedures.

On the other hand, those without health coverage may find themselves in financial pain.

You may take a big financial risk if you go without health insurance. Just one accident or one emergency trip to the hospital and you may be left with a debt rivaling your mortgage.

If you are not covered by an employer plan or Medicare and pay for your own health coverage, the cost, although expensive, may be well worth it.

Imagining that you can go without it for the next five or ten years may not be realistic, even if you are a millennial or a member of Generation Z just finishing college.

You might already have a five-figure debt in the form of a student loan. Could you handle another one, perhaps, with little or no warning?

Just how much does it cost to own health insurance?

Well, here is one estimate. According to the Kaiser Family Foundation (KFF), a hypothetical 40-year-old non-smoker making $30,000 per year is projected to pay an average of about $500 per month for a basic health insurance plan for 2020.

The KFF reports that the monthly cost could drop if you qualify for a premium subsidy via federal or state government.

You may be able to put off paying a few thousand dollars a year for health insurance, but in doing so, are you choosing to assume a great financial risk?

A major medical procedure can cost as much as a new car or college education.

Lesser Known Provisions of the SECURE Act

The SECURE Act was passed into law in late 2019 and changed several aspects of retirement investing.

These modifications included modifying the ability to stretch an Individual Retirement Account (IRA) and changing the age when IRA holders must start taking requirement minimum distributions to 72-years-old.

Under the SECURE Act, your required minimum distribution (RMD) must be distributed by the end of the 10th calendar year following the year of the Individual Retirement Account (IRA) owner's death.

A surviving spouse of the IRA owner, disabled or chronically ill individuals, individuals who are not more than 10 years younger than the IRA owner and a child of the IRA owner who has not reached the age of majority may have other minimum distribution requirements.

Under the SECURE Act, in most circumstances, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA).

Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

You may continue to contribute to a Traditional IRA past age 70½ under the SECURE Act as long as you meet the earned-income requirement.

While those provisions grabbed the headlines, several other smaller parts of the SECURE Act have caught the attention of individuals who are raising families and paying off student loan debt.

For College Students who have graduate funding, the SECURE Act allows students to use a portion of their income to start investing in retirement savings.

The SECURE Act also contains a clause to include "aid in the pursuit of graduate or postdoctoral study."

A grant or fellowship would be considered income that the student could invest in a retirement vehicle.

One other provision of The SECURE Act allows you to use your 529 Savings Plan to

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pay for up to $10,000 of student debt.

Money in a 529 Plan can also be used to pay for costs associated with an apprenticeship.

Under the SECURE Act, if you are having a baby or adopting, you can withdraw up to $5,000 per individual, tax free from your IRA, to help cover costs associated with a birth or adoption.

However, there are stipulations. The money must be withdrawn within the first year of this life change, otherwise, you may be open to the tax penalty.

The most complicated part of the SECURE Act has to do with Annuities.

It is now easier for an employer-sponsored retirement plans to have annuities added to their investment portfolio.

This was accomplished by reducing the fiduciary responsibilities that a company may incur in the event the annuity provider goes bankrupt.

The only upside benefit is that annuities may provide retirees with guaranteed lifetime income.

The downside, however, is that annuities are long term contracts and are often the incorrect vehicle for investors just starting out or far from retirement age.

Additionally, the guarantees of an annuity contract depend on the issuing company's claims-paying ability.

Annuities have contract limitations, fees, and charges, including account and administrative fees, underlying investment management fees, mortality and expense fees, and charges for optional benefits.

Most annuities have surrender fees that are usually highest if you take out the money in the initial years of the annuity contact.

Withdrawals and income payments are taxes as ordinary income and, if a withdrawal is made prior to age 59½, an additional 10% federal income tax penalty may apply (unless an exception applies).

2020 Catch-up Contributions

Congress passed a law in 2001 that can help older workers make up for lost time. But few may understand how this generous offer can add up over time.

The "catch-up" provision allows workers who are over age 50 to make contributions to their qualified retirement plans greater than the limits on younger workers.

In 2020, the 401(k) catch–up contribution limit will be $6,500 for workplace plans, up from $6,000.

The amount you can contribute to an IRA in 2020 remains at $6,000, with a $1,000 catch-up limit for individuals who are 50 or older.

Setting aside an extra $6,500 each year into a tax-deferred retirement account has the potential to make a huge difference in the eventual balance of the account.

Frankly Funny

Two old friends and lifetime political pundits, one a liberal and the other a conservative, go to a bakery.

They agree to put politics aside and just enjoy their breakfast.

The liberal steals three buns and puts them into his pockets and walks outside.

He says to his conservative friend: "That took great skill and cleverness to steal those buns and the owner didn't even see me."

"That's just simple thievery," the conservative replied. "I'll show you how to do it the honest way and get the same results."

The conservative then proceeded to call out the owner of the bakery and says: "Sir, I want to show you a magic trick."

The owner was intrigued so he came over to see the magic trick.

The conservative asked him for a bun and then proceeded to eat it. He asked two more times and after eating them the owner says: "Okay my friend, where's the magic trick?"

The conservative then said: "Look in my buddy's pockets."

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