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Welcome to the Q2-2021 issue of *Frank*ly**Speaking**©, now in its 29th 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

Recent developments on the Covid-19 vaccination front in the United States look quite promising.

According to the Center for Disease Control and Prevention (CDC) around 22% of the overall U.S. population has received at least one dose and around 12% of the population can now be classified as fully vaccinated against the virus.

An important landmark, 100 million administered doses, has been reached and it seems as though nothing can go wrong. But precisely this, excess optimism on the virus front based on initial successes, might be dangerous.

The reality is that vaccinations have been focused on the elderly population, aged 65 an older, representing 38% of the U.S. population, which are now fully vaccinated compared to just 12% of people between the age of 18 and 64 years.

While it is certainly sensible to immunize the most vulnerable group first, this should not be grounds for the rest of the population to act as though normality has already been achieved or determine that there is no need to get the vaccination at all.

A quick reality check reveals that the United States is far from out of the woods. Despite the fast progress on vaccinations, new cases recently bottomed out at still high levels of around 60,000 per day.

The decline in new cases since the beginning of 2021 may also reflect cautious behavior in the past few months and could be less correlated to the distribution of vaccines, given the relatively low overall vaccination rates.

Furthermore, since more elderly people have now acquired a high degree of immunity, hospitalizations of people in their prime have increased steeply again.

The total number of hospitalizations is declining steadily but the point to be made is that vaccinating the elderly is simply not enough, especially if new variants of the virus prove to be more aggressive than those we have seen so far.

Therefore, broad acceptance of the vaccines will be key to return to normal. And this acceptance level has unfortunately declined in the United States since the beginning of 2021 from around 70% to current approval rates of 55%.

It is not quite clear whether negative news on possible vaccine-side effects has affected the willingness to take the shot or the overall attitude of the population to Covid-19 has changed.

Recurring patterns of restrictive measures or local temporary lockdowns would be the likely consequence, especially if the virus is here to stay, as some research suggests.

The implications of the virus becoming common and following a regular pattern, like the seasonal flu, are far reaching.

In such a scenario, an annual booster may be needed periodically, at least for some time. This is not very promising if the reluctance to be vaccinated persists, but it is expected there would be a willingness for a booster to rise over the next year as vaccinations go ahead, hopefully without complications.

The freedom enjoyed by people who have been vaccinated might become visible and social pressure to have the booster would increase. Anyhow, reluctance now could jeopardize the progress made so far toward a fast recovery.

Passing of another round of fiscal stimulus will most likely produce impressive growth rates in 2021 but, for our growth forecast we see significant risk to the upside.

Fiscal support of this kind typically works only as a one-time boost and follow-up gains are hard to realize if people are still unable to go back to work and the gap between the current position of the economy and the desired destination is still quite large, especially judging by the labor markets.

Since the U.S. Federal Reserve (Fed) has effectively abandoned the standard unemployment rate as a key metric for their judgement of the economic recovery, much attention has been drawn to the so-called employment-to-population ratio and labor-force-participation rate.

The employment-to-population ratio quite dramatically demonstrates the gap that the economy must still close in order to recover fully.

Most of the losses have been in service sector jobs, the biggest sector and the one most reliant on a fast resolution of the pan-

demic via a rapid vaccination campaign.

Jobs that involve a lot of human contact, like those in leisure and hospitality, are lagging behind in the recent recovery and account for almost half of all losses to date.

Average earnings in leisure and hospitality are currently at around $17 per hour which lag far behind the overall average salary in the service sector or the private sector in general, both of which are around $30 an hour.

That helps to explain just what the Fed might have in mind when it talks about "a broad-based and inclusive recovery" that benefits everyone.

The Fed was firm on its stance in its March Federal-Open-Market-Committee (FOMC) meeting that near-term expected higher inflation is judged as transitory and it will make major changes of monetary policy dependent on healing of the labor market, which is likely to take quite a while and their updated growth outlook paints a very rosy picture, at least for 2021.

U.S. gross domestic product (GDP) growth expectations for 2021 have been revised up to 6.5% from 4.2%, reflecting the likely impact of another round of sizable fiscal stimulus and good progress on vaccinations.

Meanwhile inflation is now expected to rise above 2% this year before ticking down to 2% in 2022 and up a little bit to 2.1% in 2023 as the outlook on the labor market brightens.

The unemployment rate is expected to decline somewhat faster to 3.5% in 2023, an area compatible with the broad based and inclusive goal of maximum employment.

FOMC participants remain dovish despite these big optimistic upgrades. The outlook for 2023 still does not indicate a rate hike, though some participants do foresee a slightly steeper path for policy interest rates.

In the press conference, however, Fed Chair Powell laid out one major condition for the Fed's optimism.

He reminded us to avoid complacency and that vaccinations offer a ray of hope but that mask-wearing will still be necessary until the job is done.

On adjusting the Fed's policies, he gave the usual current answer: the calibration of their tools is outcome based and it is not yet the time to think about tapering.

Beyond that, Powell spent quite some time underlining that longer-term economic forecasts are highly uncertain and that he wants to abstain from relying too much on them.

The Fed's message might be summed up as this: remain complacent, but only about monetary policy, not the pandemic.

Mortgage Rates Slowly on the Rise

MCLEAN, VA, April 1, 2021) (GLOBAL 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 3.18%.

The 30-year fixed-rate mortgage (FRM) averaged 3.18% with an average 0.7 point for the week ending April 1, 2021, up slightly from the previous week when it averaged 3.17%. A year ago, at this time, the 30-year FRM averaged 3.33%.

The 15-year FRM averaged 2.45% with an average 0.6 point, unchanged from the previous week. A year ago, at this time, the 15 -year FRM averaged 2.82%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 2.84% with an average 0.3 point, unchanged from the previous week. A year ago, the 5-year ARM averaged 3.40%.

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.

The PMMS is focused on conventional, conforming, fully amortizing home purchase loans for borrowers who put 20 percent down and have excellent credit.

Average commitment rates should be reported along with average fees and points to reflect the total upfront 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 remarked, "Although mortgage rates remain low, we are beginning to see a pullback by those looking to enter the housing market.

In fact, homebuyer demand has gone from 25% above pre-COVID levels at the start of the year, when mortgage rates hit record lows, to 8% above pre-COVID levels today."

Khater added, "We even see that purchase demand is diminished today as compared to late May and early June of 2020, when mortgage rates were the same level.

This is confirmation that while purchase demand remains strong, the marginal buyer is feeling the affordability squeeze resulting from the increases in mortgage rates and home prices we have experienced in recent months.

Inflation Expectations

Inflation has returned to U.S. capital markets. Inflation expectations have risen sharply since the beginning of the year, driving up bond yields.

In the Eurozone, the biggest one-month increase in the inflation rate since the introduction of the single currency was recorded at the beginning of the year.

A significant and sustained rise in inflation would, sooner or later, force the central banks to act.

The prospect of rising money-market rates in the long term has already been enough to cause interest rates to rise in the short term.

If this trend were to continue, further losses in bond prices and rises in bond yields would be the consequence.

If bond yields were to shoot up too far, so that not only nominal interest rates but also real interest rates were to rise sharply, the negative effects would not be limited to bonds.

The stock market would also suffer because real interest rates play a central role in the discounting of future profits.

The factors determining the level of inflation that can be expected are the likely impacts on capital markets. To get a better analysis, we need to think in terms of different time horizons.

Specifically, this year numerous special factors could lead to a significant rise in inflation.

However, in the next two to three years, inflation rates are not expected to rise too sharply because capacity underutilization and unemployment are high.

We are not in an environment in which wages are likely to rise substantially or companies will raise prices significantly.

In the longer term, i.e. four to five years, however, a significant increase in inflationary pressure is quite possible.

Tax Scams to Watch For

Every year the Internal Revenue Service (IRS) releases its list of numerous tax scams people use to separate you from your hard earned money.

Topping the list is Identity Theft where, by using your personal information, an identity

thief can file a fraudulent tax return and claim a refund. If you have been a victim of stolen personal information, you can contact the IRS so the agency can protect your tax account.

Be wary of fake emails or websites looking to steal your personal information by Phishing. If you receive a request for information that appears to be from the IRS, contact the IRS directly to verify the request.

Scammers will contact you pretending to be from the IRS. They may say that you are due a large refund or owe money, even threatening arrest or revocation of your driver's license.

If you receive such a call, call the IRS and contact the Federal Trade Commission using their "FTC Complaint Assistant" at FTC.gov.

Be aware of phony tax preparers promising inflated returns asking you to sign a blank return or charge fees based on a percentage of the refund. Stay clear of phony storefronts or preparers advertising through word-of-mouth to community groups where trust is high.

Dishonest preparers may use tax preparation as an excuse to steal your personal information, so only use a preparer who signs the return and has an IRS Preparer Tax Identification Number.

The IRS has strengthened its ability to identify offshore holdings, and the failure to report them will be costly.

Fraudulent charities raise money or obtain private information from individuals looking to help. Donate only to recognized charities and beware of charities whose names sound similar to the well-known ones.

Falsifying your tax return is a high risk, low reward exercise, especially in this age of Big Data.

Ignore promoters of frivolous arguments that promise you tax relief. Not only are they expected to fail, but you may be subjected to penalties and possible jail time.

Dishonestly reporting deductions to reduce tax bills or inflate refunds may open you up to penalties and prosecution.

If someone is proposing to eliminate or substantially reduce your taxes through complex tax structures, walk away, they may be offering nothing more than illegal tax evasion.

Excessive claims for business tax credits happens when taxpayers or their tax preparers improperly claim the research credit or the fuel tax credit, which is generally limited to off-highway uses, such as farming.

The information in this material is not intended as tax or legal advice. We recommend you consult legal or certified tax professionals for specific information regarding your individual situation.

Healthcare Costs in Retirement

In a 2020 survey reported by the Employee Benefit Research Institute, 36% of all workers reported they were either "not too" or "not at all" confident that they would have enough money to pay for their medical expenses in retirement.

Regardless of confidence level, however, being aware of potential health care costs during retirement may allow you to understand what you can pay for and what you cannot.

A retired household faces three types of health care expenses.

First, is the premiums for Medicare Part B, which covers physician and outpatient services and Part D, (which covers drug-related expenses).

Typically, Part B and Part D are taken out of a person's Social Security check before it is mailed, so the premium cost is often overlooked by retirement-minded individuals.

Second, copayments related to Medicare-covered services that are not paid by Medicare Supplement Insurance plans, also known as Medigap, or other health insurance.

Costs associated with dental care, eyeglasses, and hearing aids, which are typically not covered by Medicare or other insurance programs.

According to a HealthView Services study a 65-year-old healthy couple (male living to age 87; female, age 89), can expect their lifetime health care expenses to add up to over $600,000.

Should you expect to pay this amount? Possibly. Seeing the results of one study may help you make some critical decisions when creating a strategy for retirement. Without a solid approach, health care expenses may add up quickly and alter your retirement spending.

Workers were asked how much they have saved and invested for retirement, excluding their residence and defined benefit plans. The numbers are frightening.

28% had less than $1,000
17% had less than $10,000
7% had less than $25,000
8% had less than $100,000
14% had less than $249,900
14% had $250,000 and over

Maximizing Social Security Benefits

Most of us understand that waiting to claim Social Security benefits can result in higher monthly payment.

However, many do not know that there are other ways to maximize their benefits, some of which depend on their marital status.

Understanding the strategies for maximizing your Social Security retirement income benefits should begin with a review of the three basic forms of retirement benefits:

The Worker Benefit: This is the benefit you receive based on your own personal earnings history, and for which you become eligible after 40 quarters of work.

The Spousal Benefit: This is the benefit paid to your spouse. For non-working spouses, this is 50% of the working spouse's benefit. For working spouses, it is the greater of the benefit earned from his or her earnings or 50% of the worker's benefit.

The Survivor Benefit: This is the benefit paid to the surviving spouse, which is paid at a rate equal to the greater of his or her own current benefit, or the deceased spouse's current benefit.

The first and most obvious strategy for maximizing your Social Security benefit is to simply wait to reach age 70 before beginning to take benefits.

By waiting until age 70 to receive benefits, your monthly payments may increase by 32%, not including any cost-of-living increases that may be added to this amount.

Remember, there is no spousal benefit for a widow/widower, but he or she does qualify for a survivor benefit that is equal to 100% of the deceased spouse's benefit, versus the 50% spousal benefit if the working spouse is still alive.

If you are widowed and have worked for 40 quarters, you will have a worker benefit and a survivor benefit.

This presents you with several choices. One choice is to file for the benefit that provides you the greatest monthly benefit amount.

Another choice may be to start your worker benefit at age 62 and then switch to the survivor benefit once you reach full retirement age.

This option is advantageous in instances where the widowed spouse did not accumulate the same level of benefits as the deceased spouse.

Choosing this option allows the surviving

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2801 University Drive
Suite 201B
Coral Springs, FL 33065
Phone: 954.755.8647
Fax: 954.755.6863
Email: fpugliese@pfprofiles.com

1415 Panther Lane
Suite 356
Naples, FL 34109
Phone: 239.598.9141
Fax: 239.598.9121
Email: dmaggio@pfprofiles.com

VISIT US ONLINE @ WWW.PFPROFILES.COM

spouse to take the higher survivor benefit amount.

Because there are no delayed retirement credits earned on survivor benefits, there is no advantage to waiting past full retirement age to apply for survivor benefits.

A final choice is to consider starting the survivor benefit at age 60 and then switching to your own worker benefit at age 70.

This strategy allows you to begin receiving income based on the survivor benefit as early as possible and provides you time to build up the maximum worker benefit.

There are ways you can potentially raise your Social Security benefits. These strategies can help you maximize your benefits beyond what is available to those who simply delay retirement to age 70.

Will Power

Only 45% of adults have a will or other estate documents in place, which is disturbing but not be entirely surprising.

A will is an instrument of power that gives you control over the distribution of your assets. If you die without one, the state decides what becomes of your property, without regard to your priorities.

A will is a legal document by which an individual or a couple, known as "testator," identifies their wishes regarding the distribution of their assets after death. A will can typically be broken down into four main parts.

1. Executors - Most wills begin by naming Executors who are responsible for carrying out the wishes outlined in a will. This involves assessing the value of the estate, gathering the assets, paying inheritance tax and other debts, if necessary, and distributing assets among beneficiaries. We recommend that you name at least two executors, in case your first choice is unable to fulfill the obligation.

2. Guardians - A will allows you to designate a guardian for minor children. For many people, this is the most important part of a will since, if you die without naming a guardian, the court will decide who takes care of your minor children.

Make sure that the individuals are able and willing to assume the responsibility.

3. Gifts - This section enables you to identify people or organizations to whom you wish to give gifts of money or specific possessions, such as jewelry or a car.

You can also specify conditional gifts for someone when they reach a certain age.

4. Estate - Your estate encompasses everything you own, including real property, financial investments, cash, and personal possessions.

Once you have identified specific gifts you would like to distribute, you can apportion the balance of your estate in in any manner you wish. *Source: Legalzoom.com*

Frankly Funny

This is a true story of a Mississippi man who, was going to bed when his wife told him that he had left the light on in their shed.

He opened the door to go turn off the light but saw there were people in the shed in the process of stealing things.

George immediately phoned the police, who asked, "Is someone in your house?" and he responded, "No," and explained the situation.

The police then explained that all patrols were currently busy and that he should simply lock his door and an officer would be there as soon as someone was available.

George said, "Okay," hung up, counted to 30, and phoned the police again.

"Hello, I just called you a few seconds ago because there were people in my shed. Well, you don't have to worry about them now because I've just shot them all."

Then he hung up. Within five minutes three squad cars, an Armed Response unit, and an ambulance showed up.

Of course, the police caught and arrested the burglars red-handed.

One of the policemen said to George, "I thought you said that you had shot them!"

George said, "I thought you said there was nobody available!"

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