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# *Frank*ly Speaking©

Summer

Welcome to the Q3-2022 issue of *Frank***lySpeaking**©, celebrating its 30th 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

While the U.S. economy can potentially achieve 1% – 2% annualized GDP growth in calendar year 2022, there is a better-than-even probability of falling into recession during the year ahead.

Economic forecasts weigh the overall risk of recession at some point in the upcoming 12 months to be about 60% and, within that probability, the odds of a more prolonged and severe recession lasting longer than a year to be less than 20%.

The chance of the core rate of inflation moderating into the sub-4% range by year-end as Federal Reserve tightening and a consumer shift from goods to services begin to provide some relief to the pace of rising prices.

Given recent stock and bond price declines, economists still view this economic environment as opportunistic for longer-term investors, although the war in Ukraine, oil prices, and ongoing COVID trends are potential wild cards.

Given this new environment, markets will likely be looking for signs of resolutions, pertaining to three central economic uncertainties during the second half of 2022 and beyond.

Specifically, the point at which inflation rates have peaked or are in the process of peaking, the risk of recession both in absolute terms and the degree of severity and remaining factors potentially impacting the pace of growth in the year ahead.

Investors need to explore potential market obstacles that have sent major stock indexes into bear market territory and have taken their toll on conservative bond strategies.

At the top of the list of forces sabotaging stocks and bonds has been inflation, which, since the year began, has elevated to levels not seen in more than 40 years.

As worker shortages, congested global supply lines, the war in Ukraine, and surging energy costs have all taken their toll and then some on consumer prices, investors have been left to wonder when the worst might be over.

To combat inflation, the Federal Reserve has been forced to reverse course, halting the most accommodative stretch of monetary policy ever and replacing it with a methodical pace of rate hikes originally determined by most to be lacking in speed and magnitude to curtail the once-in-four-decade rates of rising prices.

As much as the markets initially seemed uncomfortable with the Fed's shift in direction several months ago, an overwhelming consensus quickly emerged that it did not change course soon enough or fast enough and even in the present tense may still be behind the curve on inflation.

This combination of rising inflation and interest rates has led the markets to consider yet another risk, that of a pending recession.

The quick pace of economic recovery experienced immediately following the initial COVID-19-induced economic shock of two years ago, has now given way to an aftermath hangover of inflation and slowing economic growth, reflected in 1Q GDP contraction of -1.5%, the first quarter of negative economic growth since the pre-vaccine days of the pandemic.

This has left markets to measure the risk of recession in the immediate months ahead and throughout the end of next year as the Fed seeks to navigate a soft landing while attempting to curb inflation.

As if inflation, higher interest rates, and the risk of recession were not enough, global markets must also struggle with the horrific humanitarian crises of the war in Ukraine and what appears to be the end of the COVID-19 pandemic.

At every turn there seems to be some sort of rationale potentially persuading investors to lean into another round of selling.

However, for those who have seen and lived through some similarly turbulent times since this century began, we are also reminded of the familiar saying that "markets climb a wall of worry."

Markets are the great discounters of future events, and when resolution of concerns can be identified, even ones that might not be in the immediate future, asset prices can redirect quickly.

Such was the case during bear markets concluding in 2002, 2009, 2011, 2018, and most recently 2020, when those that stayed the course or acted opportunistically were greatly rewarded in the years to follow.

So as the second half of 2022 and beyond awaits, two questions are of paramount importance.

Have current market levels adequately priced in the risks mentioned above, and are long-term opportunities still available? To which we respond, most likely and yes.

## Mortgage Rates Pause From Their Assent

MCLEAN, VA, June 30, 2022 (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 5.70%.

The 30-year fixed-rate mortgage (FRM) averaged 5.70% with an average 0.9 point for the week ending June 30, 2022, was down from the previous week when it averaged 5.81%. A year ago, at this time, the 30 -year FRM averaged 2.98%.

The 15-year FRM averaged 4.83% with an average 0.9 point, was down from the previous week when it averaged 4.92%. A year ago, at this time, the 15-year FRM averaged 2.26%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 4.50% with an average 0.3 point, was up from the previous week when it averaged 4.41%. A year ago, the 5-year ARM averaged 2.54%.

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% 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, stated that the rapid rise in mortgage rates has finally paused, largely due to the countervailing forces of high inflation and the increasing possibility of an economic recession.

He also noted that the pause in rate activity should help the housing market rebalance from the breakneck growth of a seller's market to a more normal pace of home price appreciation.

## Proposed Retirement Savings Legislation

On June 23, 2022, the Senate Finance Committee advanced the Enhancing American Retirement Now Act to the Senate floor on a voice vote.

It likely will be combined with another retirement measure that was unanimously approved by the Senate Health Education Labor and Pensions Committee, the Rise & Shine Act.

The legislation includes more than 70 proposals aimed at helping more Americans save for retirement.

Key provisions of the bill include:

- Raising the required minimum distribution age from 72 to 75.
- Increasing catch-up contributions for people between 60 and 63.
- Allowing employers to match student-loan payments with retirement plan contributions.
- Enabling workers to withdraw emergency funds from plans.
- Establishing 403(b) multiple-employer plans.
- Allow workers to take retirement plan distributions to pay for long-term-care insurance and implementing 401(k) starter plans.

Additionally, this provision would allow an employer to replace a Simple IRA plan with a Simple 401(k) plan or other 401(k) plan that requires mandatory employer contributions during a plan year and would be effective after 2023.

The expense of expanding retirement coverage and boosting individual savings would be financed with revenue-raising provisions, such as requiring catch-up contributions to be made with after-tax Roth individual retirement accounts

## 2023 Social Security COLA Estimate

With high inflation, the Committee for a Responsible Federal Budget forecasts a range for next year's Social Security cost of living adjustment that ranges up in double digit increases.

Another prediction of a historically large Social Security cost of living adjustment for 2023 is out, reporting it could be as high as 10.8%, which would represent the biggest adjustment since 1981, when it was 11.2%.

A new analysis from the nonpartisan Committee for a Responsible Federal Budget (CRFB) says that if inflation continues at its current pace (which was 8.6% in May), Social Security beneficiaries could receive a COLA hike of 10.8% starting in January.

If there is no inflation for the next 5 months, the group predicts the COLA increase would be 7.3%.

The Social Security Administration will not determine the actual 2023 COLA until inflation rates are tracked and averaged via the Consumer Price Index in July, August, and September, but the way things are trending an increase greater than 8% seems more and more likely.

The Senior Citizens League's most recent forecast, last updated after the May Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), figures were released by the Bureau of Labor Statistics, stood at an 8.6% increase.

Stephen Goss, chief actuary at the Social Security Administration, reported that a COLA close to 8% is likely based on CPI-W trends so far this year.

The next 2023 COLA forecast updates are expected to be released in mid-July, the same time the CPI-W data for June is scheduled to be published.

If CRFB's high-end forecast of 10.8% ends up being accurate, the average monthly Social Security check would increase by $179 per month, whereas if inflation moderates some and the 2023 COLA ends up being 8%, beneficiaries will see an increase of $132.64 per month in 2023, beginning in January.

The 2022 Social Security COLA increase was 5.9%, which was the highest inflation adjustment in 40 years and the 2021 COLA was just 1.3%.

According to a recently released report from the Treasury Department's Social Security Board of Trustees, Social Security will be able to pay scheduled benefits until 2034, one year longer than reported last year.

*Source: 401(k) Specialist (06/28/2022).*

## Thinking About Retiring In the Next 5 Years?

You can prepare for the transition to retirement years in advance to be better equipped to manage anything unexpected that may come your way.

When it comes to how much monthly income will you need, unfortunately, there is no default number for everyone.

A good way is to examine your monthly expenses, considering any trips, adventures, or pursuits you have in mind for the near term. You can even try living on your projected monthly income for 2-3 months prior to retiring.

Should you downsize your home or possibly relocate? Your home is not only a significant asset, it also represents a significant part of your lifestyle.

Our homes are often a reflection of who we are, how much home we want or need and can vary with every situation. It is not purely a financial decision.

On the other hand, if you are considering downsizing or relocating, the financial component of the decision should be considered.

For many retirees, the top priority is generating consistent income. With that in mind, we can adjust your portfolio with respect to your time horizon, risk tolerance and goals.

Will you change your lifestyle? Have you thought about retirement communities, or do you want to dedicate more time to volunteering? Keep in mind, retirement is a whole new beginning.

What would you like to begin doing now? Think about how to structure your days to pursue that goal and give it a shot!

There's no better way to prepare for what may come, than to practice in the present.

How will you take care of yourself? If you retire before age 65, Medicare may not be an option. If you're considering early retirement, check if your group health plan extends certain benefits into retirement.

Even if you retire at 65 or later, Medicare may not be your ideal solution. Consider items Medicare doesn't traditionally cover, such as extended care or other specialized medical services.

Review your retirement strategy as the transition approaches. Give us a call. An adjustment or two before retirement may be all you need for a successful next chapter.

## Medicare Part B Premium Reduction

The United States Department of Health and Human Services (HHS) will not readjust Medicare Part B premiums this year.

But it says that Part B premiums are likely to fall in 2023 because of cost savings on Aduhelm, a drug to treat Alzheimer's.

Medicare beneficiaries had hoped to receive some relief from the 14.5% increase in Part B premiums this year but were disappointed, however, they may see lower premiums next year.

When the 2022 premium was announced last November, the Centers for Medicare and Medicaid Services (CMS) said the unusually large increase was driven in part by the statutory requirement to prepare for potential expenses, such as spending trends driven by COVID-19 and the uncertain pricing and utilization of Aduhelm, a new drug to treat Alzheimer's disease.

The manufacturer of Aduhelm has since reduced the price by 50%.

The HHS Secretary Xavier Becerra instructed CMS to reassess the 2022 Part B premium amount in response to the reduction in the price of Aduhelm.

The CMS announced that any savings due to changes in the cost of Aduhelm will be reflected in the 2023 Medicare Part B premium. Given the information available today, it is expected that the 2023 premium will be lower than 2022. The final premium determination will be made this fall.

In a report accompanying the announcement, the CMS determined that it was impractical to try to adjust the Medicare Part B premiums mid-year 2022 and that CMS does not have sufficient authority to send premium refunds directly to beneficiaries.

CMS found that incorporating the premium effects of Aduhelm's price reduction into the 2023 premium was the only feasible option.

## Countdown to College

As parents, we want to give our children the best opportunity for success, and for many, attending the right university or college is that opportunity.

Unfortunately, being accepted to the college of one's choice may not be as easy as it once was.

Additionally, the earlier you consider how you expect to pay for college costs, the better. Today, the average college graduate owes over $37k in debt, while the average salary for a recent graduate is approximately $51k.

Preparing for college means setting goals, staying focused, and tackling a few key milestones along the way, beginning with their first year of high school.

Before their freshman school year begins, you and your child should have discussed at least a handful of colleges they might select.

A lot can change during high school, so remaining flexible, but focused on your shared goals, is crucial. It may be helpful to meet with your child's guidance counselor or homeroom teacher for any advice they may have.

You may want to encourage your child to choose challenging classes as they navigate high school. Many universities look for students who push themselves when it comes to learning.

However, a balance between difficult coursework and excellent grades is important. Keeping an eye on grades should be a priority for you and your child as well.

During their sophomore year, some students may have the opportunity to take a practice SAT. Even though they won't be required to take the actual SAT for roughly a year, a practice exam is a good way to get a feel for what the test entails.

Sophomore year is also a good time to explore extracurricular activities.

Colleges are looking for the well-rounded student, so encouraging your child to explore their passions now may help their application later.

Summer may also be a good time for sophomores to get a part-time job, secure an internship, or travel abroad to help bolster their experiences.

Your child's junior year is all about standardized testing. Every October, third-year high-school students can take the Preliminary SAT (PSAT), also known as the National Merit Scholarship Qualifying Test (NMSQT).

Even if they won't need to take the SAT for college, taking the PSAT/NMSQT is required for many scholarships, such as the National Merit Scholarship.

Top colleges look for applicants who are future leaders so encourage your child to take a leadership role in an extracurricular activity.

This doesn't mean they have to be a drum major or captain of the football team. Leading may involve helping an organization with fundraising, marketing, or community outreach.

Your child will want to take the SAT or ACT in the spring of their junior year. An early test date may allow time for repeating tests their senior year, if necessary.

No matter how many times your child takes the test, most colleges will only look at the best score.

Now comes their senior year which is the most exciting time of high school. Seniors will finally begin to reap the benefits of their efforts during the last three years.

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Once you and your child have decided on which schools to apply to, make sure you keep on top of deadlines. Applying early can increase their chance of acceptance.

Now is also the time to apply for scholarships. Consulting your child's guidance counselor can help you continue to identify scholarships within reach.

Billions in free federal grant money goes unclaimed each year, simply because students fail to fill out the free application.

Make sure your child has submitted their FAFSA (Free Application for Federal Student Aid) to avoid missing out on any financial assistance available.

Finally, talk to your child about living away from home. Help make sure they know how to manage money wisely and pay bills on time.

You may also want to talk to them about social pressures some college freshmen face for the first time when they move away from home.

For many people, college sets the stage for life. Making sure your children have options when it comes to choosing a university can help shape their future.

Work with them today to set realistic goals and develop habits that will help ensure their success.

## A Decision Not Made Is Still a Decision

Whether through inaction or nervousness, investors who put off important investment decisions are flirting with potential consequences to their future financial security.

One of the worst decisions may be the failure to enroll in your company sponsored 401(k) plan, although more companies are automatically enrolling workers into their retirement plans.

Not only do nonparticipants sacrifice one of the best ways to save for their eventual retirement, but they also forfeit the money that any employer matching contributions represent.

Not participating creates the potential to be one of the costliest indecisions you can make.

Another way you can let indecision get the best of you is by not selecting the investments for the contributions you have made to the 401(k) plan.

When a participant fails to make an investment selection, the plan may have a default provision for automatically investing that money.

That investment selection may not be consistent with your time horizon, risk tolerance, and goals.

Feel free to call us to discuss your options and offer you guidance.

In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 72 (soon to be age75).

Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and if taken before age 59½, may be subject to an additional 10% federal income tax penalty.

You may have made investments based on articles you have read or on the recommendations of a family member, or you may have purchased investments held in a previous employer's 401(k) plan.

Over time, you can end up with a collection of non-managed investments that may have no correlation to your current investment objectives. Even though they may have made good sense at one time, they are no longer advantageous to your current goals.

By not periodically reviewing what you own, you may be able determine if the investment meets your current investment objectives.

Whatever your situation, your retirement investments require careful attention and may benefit from deliberate, thoughtful decision-making. You will be grateful that you invested the time. ***Source: CNBC.com, 12/28/2021***

## *Frankly Funny*

A senior citizen was chatting with his 80-year-old buddy.

"So, I hear you're getting married again?"

"Yep, in a couple of weeks!"

"Do I know her?"

"Nope, ya never met her!"

"This woman, she must be good looking?"

"Not really."

"Well, is she a good cook?"

"Nah, she can't cook too well."

"Does she have lots of money?"

"Nope! Poor as a church mouse."

"Why in the world do you want to marry her then?"

"Because she can still drive!"