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Have you checked Zillow lately? Have you seen your own home's value recently? The Arizona real estate market has been booming over the past two years. It's great to see your home's value increase, but is it negatively impacting another part of your financial picture?

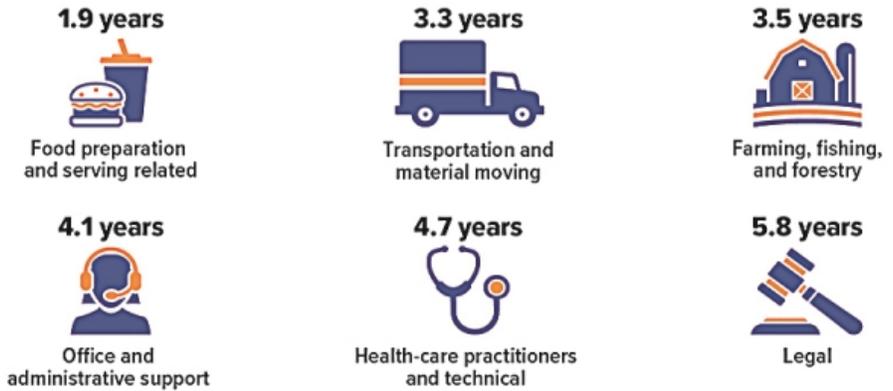
Many people don't realize it, but their insurance coverage may be lacking with home values skyrocketing. If your home value is increasing due to home improvements, inflation, or real estate prices in general, you should contact your insurance agent to ensure you are properly covered. Outdated insurance policies can leave you underinsured. Home insurance should be reviewed, at least annually, to look for any deficiencies in coverage. For any further questions, be sure to contact the SWA team. We are happy to help!

Until Next Time...  
 The SWA Team

## How Long Do Workers Stay with Their Employers?

The median number of years that wage and salary workers had been with their current employer was 4.1 years in January 2020. However, employee tenure tends to vary based on many factors, including the type of occupation, and the impact of the COVID-19 pandemic on tenure remains to be seen.

### Employee tenure, by occupation



Source: U.S. Bureau of Labor Statistics, 2020

# Following the Inflation Debate

During the 12 months ending in June 2021, consumer prices shot up 5.4%, the highest inflation rate since 2008.<sup>1</sup> The annual increase in the Consumer Price Index for All Urban Consumers (CPI-U) — often called headline inflation — was due in part to the "base effect." This statistical term means the 12-month comparison was based on an unusual low point for prices in the second quarter of 2020, when consumer demand and inflation dropped after the onset of the pandemic.

However, some obvious inflationary pressures entered the picture in the first half of 2021. As vaccination rates climbed, pent-up consumer demand for goods and services was unleashed, fueled by stimulus payments and healthy savings accounts built by those with little opportunity to spend their earnings. Many businesses that shut down or cut back when the economy was closed could not ramp up quickly enough to meet surging demand. Supply-chain bottlenecks, along with higher costs for raw materials, fuel, and labor, resulted in some troubling price spikes.<sup>2</sup>

## Monitoring Inflation

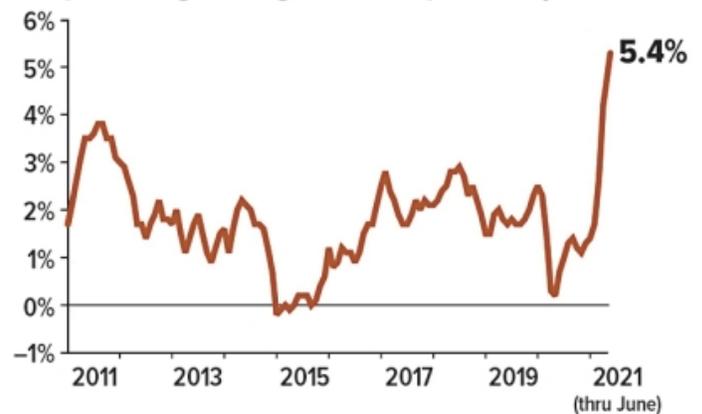
CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of the prices consumers pay if they buy the same items over time, but it does not reflect changes in consumer behavior and can be unduly influenced by extreme increases in one or more categories. In June 2021, for example, used-car prices increased 10.5% from the previous month and 45.2% year-over-year, accounting for more than one-third of the increase in CPI. Core CPI, which strips out volatile food and energy prices, rose 4.5% year-over-year.<sup>3</sup>

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 3.5% through the 12 months ending in June 2021.<sup>4</sup>

## Competing Viewpoints

The perspective held by many economic policymakers, including Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen, was that the spring rise in inflation was due primarily to base effects and temporary supply-and-demand mismatches, so the impact would be mostly "transitory."<sup>5</sup> Regardless, some prices won't fall back to their former levels once they have risen, and even short-lived bursts of inflation can be painful for consumers.

Consumer Price Index (CPI-U), monthly percentage change over the previous year



Source: U.S. Bureau of Labor Statistics, 2021

Some economists fear that inflation may last longer, with more serious consequences, and could become difficult to control. This camp believes that loose monetary policies by the central bank and trillions of dollars in government stimulus have pumped an excess supply of money into the economy. In this scenario, a booming economy and persistent and/or substantial inflation could result in a self-reinforcing feedback loop in which businesses, faced with less competition and expecting higher costs in the future, raise their prices preemptively, prompting workers to demand higher wages.<sup>6</sup>

Until recently, inflation had consistently lagged the Fed's 2% target, which it considers a healthy rate for a growing economy, for more than a decade. In August 2020, the Federal Open Market Committee (FOMC) announced that it would allow inflation to rise moderately above 2% for some time in order to create a 2% *average* rate over the longer term. This signaled that economists anticipated short-term price swings and assured investors that Fed officials would not overreact by raising interest rates before the economy has fully healed.<sup>7</sup>

In mid-June 2021, the FOMC projected core PCE inflation to be 3.0% in 2021 and 2.1% in 2022. The benchmark federal funds range was expected to remain at 0.0% to 0.25% until 2023.<sup>8</sup> However, Fed officials have also said they are watching the data closely and could raise interest rates sooner, if needed, to cool the economy and curb inflation.

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

1, 3) U.S. Bureau of Labor Statistics, 2021; 2) *The Wall Street Journal*, April 13, 2021; 4) U.S. Bureau of Economic Analysis, 2021; 5-6) Bloomberg.com, May 2, 2021; 7-8) Federal Reserve, 2020-2021

# Grandparent 529 Plans Get a Boost Under New FAFSA Rules

529 plans are a favored way to save for college due to the tax benefits and other advantages they offer when funds are used to pay a beneficiary's qualified college expenses. Up until now, the FAFSA (Free Application for Federal Student Aid) treated grandparent-owned 529 plans more harshly than parent-owned 529 plans. This will change thanks to the FAFSA Simplification Act that was enacted in December 2020. The new law streamlines the FAFSA and makes changes to the formula that's used to calculate financial aid eligibility.

## Current FAFSA Rules

Under current rules, parent-owned 529 plans are listed on the FAFSA as a parent asset. Parent assets are counted at a rate of 5.64%, which means 5.64% of the value of the 529 account is deemed available to pay for college. Later, when distributions are made to pay college expenses, the funds aren't counted at all; the FAFSA ignores distributions from a parent 529 plan.

By contrast, grandparent-owned 529 plans do not need to be listed as an asset on the FAFSA. This sounds like a benefit. However, the catch is that any withdrawals from a grandparent-owned 529 plan are counted as untaxed student income in the following year and assessed at 50%. This can have a negative impact on federal financial aid eligibility.

**Example:** Ben is the beneficiary of two 529 plans: a parent-owned 529 plan with a value of \$25,000 and a grandparent-owned 529 plan worth \$50,000. In Year 1, Ben's parents file the FAFSA. They must list their 529 account as a parent asset but do not need to list the grandparent 529 account. The FAFSA formula counts \$1,410 of the parent 529 account as available for college costs ( $\$25,000 \times 5.64\%$ ). Ben's parents then withdraw \$10,000 from their account, and Ben's grandparents withdraw \$10,000 from their account to pay college costs in Year 1.

In Year 2, Ben's parents file a renewal FAFSA. Again, they must list their 529 account as a parent asset. Let's assume the value is now \$15,000, so the formula will count \$846 as available for college costs ( $\$15,000 \times 5.64\%$ ). In addition, Ben's parents must also list the \$10,000 distribution from the grandparent 529 account as untaxed student income, and the formula will count \$5,000 as available for college costs ( $\$10,000 \times 50\%$ ). In general, the higher Ben's available resources, the less financial need he is deemed to have.

## New FAFSA Rules

Under the new FAFSA rules, grandparent-owned 529 plans still do not need to be listed as an asset, and distributions will no longer be counted as untaxed student income. In addition, the new FAFSA will no longer include a question asking about cash gifts from grandparents. This means that grandparents will be able to help with their grandchild's college expenses

(either with a 529 plan or with other funds) with no negative implications for federal financial aid.

However, there's a caveat: Grandparent-owned 529 plans and cash gifts will likely continue to be counted by the CSS Profile, an additional aid form typically used by private colleges when distributing their own institutional aid. Even then it's not one-size-fits-all — individual colleges can personalize the CSS Profile with their own questions, so the way they treat grandparent 529 plans can differ.

## Use of 529 Savings Plans



	2019	2020
Total number of accounts	13.4 million	13.9 million
Total account assets	\$346 billion	\$398 billion

Source: ISS Market Intelligence, 529 Market Highlights, 2019 and 2020

## When Does the New FAFSA Take Effect?

The new, simplified FAFSA opens on October 1, 2022, and will take effect for the 2023-2024 school year. However, grandparents can start taking advantage of the new 529 plan rules in 2021. That's because 2021 is the "base year" for income purposes for the 2023-2024 FAFSA, and under the new FAFSA a student's income will consist only of data reported on the student's federal income tax return. Because any distributions taken in 2021 from a grandparent 529 account won't be reported on the student's 2021 tax return, they won't need to be reported as student income on the 2023-2024 FAFSA.

*Consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. This information and more is available in the plan's official statement and applicable prospectuses, including details about investment options, underlying investments, and the investment company; read it carefully before investing. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits and other benefits, such as financial aid, scholarship funds, and protection from creditors. As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. For withdrawals not used for higher-education expenses, earnings may be subject to taxation as ordinary income and a 10% federal income tax penalty.*

# Is It Time to Cut Cable?

An explosion in the number and variety of streaming services, coupled with more time spent at home in the last year, might have you wondering whether it's time to cut the cord on cable. After all, cable isn't getting any cheaper. At the beginning of 2021, many large cable and satellite television companies announced higher prices and reinstated data caps, which were temporarily suspended in 2020 by the Federal Communications Commission.<sup>1</sup> But is it really worth it to ditch cable in favor of streaming services? Consider the following before you make the switch.

**Determine how much of your cable subscription you *actually* use.** Are you regularly watching all the channels you pay for, or do you watch only a few of them? Are the channels you watch worth what you pay each month? The answers to these questions may help you decide whether the cost of your cable subscription is worth it.

**Know your viewing preferences.** Streaming services often delay the release of new TV show episodes, which can be frustrating for dedicated viewers. And sports fans might be disappointed to learn that it's difficult to access live sports coverage through most streaming services. Comprehensive sports packages are offered by some services, but usually at a higher cost, and you may need to bundle a few services together depending on whether you want local, national, and/or international coverage. Plus, delays in live programming can make it tough to tune in to your

favorite teams.

**Compare streaming services.** A dizzying array of streaming services are available. Narrow down your choices by making a list of the ones that most appeal to you. If possible, sign up for free trials to find out what is (and what isn't) a good fit. And investigate the terms and conditions of any service that you decide to try — look for termination fees and how much any add-ons might cost.

**Consider the benefits and limitations.** In addition to being less expensive than cable, most streaming services are user-friendly. And as long as you have an Internet connection, streaming services allow you to view your favorite shows on the go on your cell phone or tablet. But not all streaming services offer extras such as digital video recording (DVR) or live television pausing, which are cable features you might miss. You may also have to subscribe to multiple streaming services to access all your preferred programs, which could mean you won't save much (or any) money in the long run.

**Factor in the cost of extra equipment.** You may need to invest in special streaming devices to access the programs you want. You might also consider the cost of high-speed Internet — you won't be able to successfully stream without a relatively fast Internet connection.

1) *Consumer Reports*, December 21, 2020

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## IMPORTANT DISCLOSURES

The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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