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How Does the Federal Reserve Affect the Economy?

If you follow financial news, you've probably heard many references to "the Fed" along the lines of "the Fed held interest rates," or "market watchers are wondering what the Fed will do next." So what exactly is the Fed and what does it do?

What is the Federal Reserve?

The Federal Reserve — or "the Fed" as it's commonly called — is the central bank of the United States. The Fed was created in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.

Today, the Federal Reserve's responsibilities fall into four general areas:

- Conducting the nation's monetary policy by influencing money and credit conditions in the economy in pursuit of full employment and stable prices
- Supervising and regulating banks and other important financial institutions to ensure the safety and soundness of the nation's banking and financial system and to protect the credit rights of consumers
- Maintaining the stability of the financial system and containing systemic risk that may arise in financial markets
- Providing certain financial services to the U.S. government, U.S. financial institutions, and foreign official institutions, and playing a major role in operating and overseeing the nation's payments systems

How is the Fed organized?

The Federal Reserve is composed of three key entities — the Board of Governors (Federal Reserve Board), 12 Federal Reserve Banks, and the Federal Open Market Committee.

The Board of Governors consists of seven people who are nominated by the president and approved by the Senate. Each person is appointed for a 14-year term (terms are staggered, with one beginning every two years). The Board of Governors conducts official business in Washington, D.C., and is headed by the chair (currently, Jerome Powell), who is perhaps the most visible face of U.S. economic and monetary policy.

Next are 12 regional Federal Reserve Banks that are responsible for typical day-to-day bank operations. The banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. Each regional bank has its own president and oversees thousands of smaller member banks in its region.

The Federal Open Market Committee (FOMC) is responsible for setting U.S. monetary policy. The FOMC is made up of the Board of Governors and the 12 regional bank presidents. The FOMC typically meets eight times per year. When people wait with bated breath to see what the Fed will do next, they're usually referring to the FOMC.

How does the Fed impact the economy?

One of the most important responsibilities of the Fed is setting the federal funds target rate, which is the interest rate banks charge each other for overnight loans. The federal funds target rate serves as a benchmark for many short-term interest rates, such as rates used for savings accounts, money market accounts, and short-term bonds. The target rate also serves as a basis for the prime rate. Through the FOMC, the Fed uses the federal funds target rate as a means to influence economic growth.

To stimulate the economy, the Fed lowers the target rate. If interest rates are low, the presumption is that consumers can borrow more and, consequently, spend more. For instance, lower interest rates on car loans, home mortgages, and credit cards make them more accessible to consumers. Lower interest rates often weaken the value of the dollar compared to other currencies. A weaker dollar means some foreign goods are costlier, so consumers will tend to buy American-made goods. An increased demand for goods and services often increases employment and wages. This is essentially the course the FOMC took following the 2008 financial crisis in an attempt to spur the economy.

On the other hand, if consumer prices are rising too quickly (inflation), the Fed raises the target rate, making money more costly to borrow. Since loans are harder to get and more expensive, consumers and businesses are less likely to borrow, which slows economic growth and reels in inflation.

People often look to the Fed for clues on which way interest rates are headed and for the Fed's economic analysis and forecasting. Members of the Federal Reserve regularly conduct economic research, give speeches, and testify about inflation and unemployment, which can provide insight about where the economy might be headed. All of this information can be useful for consumers when making borrowing and investing decisions.

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How to Recover from a Mid-Life Financial Crisis

Only 48% of workers ages 45 to 54 are confident that they will have enough money to last throughout their retirement.

Source: 2018 Retirement Confidence Survey, Employee Benefit Research Institute

A financial crisis can be scary at any age, but this is especially true when you're in your 40s or 50s. Perhaps you're way behind on saving for retirement or have too much debt from unnecessary spending. Or maybe an unexpected challenge, such as a job loss, illness, or break from the workforce for caregiving responsibilities, took a direct hit on your finances.

Regardless of how you got to this point, it's important to develop a strategy that will help you re-establish financial stability.

Regain control

Start by accepting the reality of your situation. This may be easier said than done when you'd rather avoid the anxiety, stress, and guilt that you may feel when you have money issues. It's okay to feel these negative emotions as part of the recovery process. They are likely to pass with time as you come up with a plan to regain control.

Review your spending

Another step is to create a budget to help establish a positive cash flow. If you're spending more money than you earn, you'll need to cut back on your discretionary spending immediately. If you've made cuts and your monthly income still isn't enough, you'll need to figure out a way to cut your fixed expenses or increase your income.

Reduce your debt

It's likely that debt is one of the reasons why you're facing a financial crisis. One survey found that people between the ages of 45 and 54 reported the highest amounts of debt overall, totaling $134,600.[1]

To reduce your overall debt, identify the amount and interest rate for each obligation you have. Then tackle it by paying off the debt with the highest interest rate first, then the next highest, and so on.

You might also consider restructuring your debt. This involves negotiating new repayment terms with creditors so you can meet your monthly expenses and pay off your debts within a reasonable amount of time. If you can't afford to hire a professional credit counselor to help you manage or restructure your debt, check with your local Consumer Credit Counseling Service (CCCS) office or another nonprofit credit counseling service to receive assistance at low or no cost.

You should also consider other options, such as seeking part-time work for extra income or liquidating assets, that can help you pay off debt more quickly.

Rebuild your funds

Chances are you've drained your emergency savings fund. If so, you'll need to build it back up. Otherwise, you'll risk racking up credit card debt or dipping into your retirement savings when the next crisis hits.

It's okay to start small. Set aside a percentage of your paycheck each pay period to go into your cash reserve. Continue adding money after reaching your goal.

Revisit your financial relationships

In order to prevent another financial crisis, what changes will you need to make to your current financial relationships? Consider the following.

- **Career.** Do you need to increase your income with a second or a part-time job? Is there room for growth in your current career, or should you consider additional education or training to help boost your earnings?
- **Home.** Do you currently live in an expensive location? Does it make sense to downsize your home or move to a lower-cost area?
- **Family.** If you're financially supporting adult children, can you reduce or discontinue it? Similarly, if you support your elderly parents, can your adult sibling(s) share the financial burden of care?
- **Habits.** Do you overspend to reward yourself? Are you an emotional shopper? Do you buy things you actually want, or are you just trying to keep up with the Joneses?
- **Health.** Can you make a lifestyle change to improve your health to help avoid future issues and potentially reduce medical costs?

Some of these changes will require careful research (e.g., moving or changing careers), whereas others can be easier to implement (e.g., avoiding shopping sprees or reducing aid to adult children).

Reassess your finances periodically

As you get back on the right financial track, it's critical to monitor your progress. Failure to do so in the past might have contributed to your crisis, so make it a habit to periodically review your finances. You might benefit from working with a financial professional who can help you stay on track with your financial goals as your situation changes.

[1] 2016 Survey of Consumer Finances, Federal Reserve Board (most recent data available)

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www.crosswalk.com

The History of Mother's Day

Mother's Day is on Sunday, May 12, 2019.

Mother's Day is celebrated in the United States and all over the world, though the dates may differ from the U.S. date; this holiday is always celebrated on a Sunday. President Woodrow Wilson made the holiday official in 1914 and marked it to occur on the second Sunday of every May.

While there have been festivals in the past among Greeks and Romans honoring mother goddesses, there was also an early Christian festival in Europe called Mothering Sunday, which encouraged people to return to their home church on the fourth Sunday of Lent. This practice faded and later merged with the modern version of Mother's Day.

According to History.com,

"The American incarnation of Mother’s Day was created by Anna Jarvis in 1908 and became an official U.S. holiday in 1914." Interestingly enough, History tells us that she later detested the commercialization of the holiday and desired to have it removed from calendars.

Time.com reports,

"It was on May 10, 1908, that Jarvis sent 500 white carnations to Andrews Methodist Episcopal Church in her hometown of Grafton, W.Va., in honor of her late mother Ann. That date, on which she also held a celebration in Philadelphia, where she lived at the time, is considered to be America’s first Mother’s Day celebration.
...

As she [Jarvis] spread the word about the holiday, she always traced it back to the moment when, in 1876, she heard her mother recite the following prayer after teaching a Sunday School lesson: 'I hope and pray that someone, sometime, will found a memorial mother’s day commemorating her for the matchless service she renders to humanity in every field of life.' When her mother died in 1905, she vowed to fulfill that dream."

Her original idea, based on her mother's prayer, was to have a larger celebration in the form of a service celebrating mothers (plural) and focusing on less fortunate mothers, vs an individual focus on one's own mother and the commercialization that followed.

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See disclaimer on page 2

Ingredients
7
Count

Nutrition
460
Calories

Total Time
5
Minutes

A Mother's Day Cocktail

Strawberry Red Wine Sangria

Cooks with Cocktails

• • •

Or anytime of year this is delicious!

Ingredients

- 2 cups red wine
- 2 cups strawberry liqueur
- 1/2 cup vodka
- 2 cups strawberry kiwi juice
- 1/2 cup strawberry
- 1/2 cup blueberries
- 1 cup club soda

Instructions

1. Mix all ingredients together in a pitcher
2. Add Ice
3. Enjoy!

Homemade Lemon Rosemary Salt Scrub

This is an oh-so-easy, and yet oh-so-fabulous, lemon rosemary salt scrub recipe. In fact, with sandal season upon us, it's so easy that you might make a double batch of scrub and keep one jar for yourself!

Ingredients

- 1/2 cup coarse sea salt
- 1 tablespoon coconut oil
- 1 lemon
- 10 drops rosemary

Instructions

Blend all items in a food processor. Scoop into a jar. Add albel and give to your mama or anyone as a gift!