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James V Sadrianna PA Newsletter - June 2021

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Though all economists expect inflation numbers to rise in the near term, there are different views on the potential long-term effects.

Rising Inflation: Where Will It Go from Here?

In March 2021, the Consumer Price Index for All Urban Consumers (CPI-U) rose 0.6%, the largest one-month increase since August 2012. Over the previous 12 months, the increase was 2.6%, the highest year-over-year inflation rate since August 2018. (By contrast, inflation in 2020 was just 1.4%.)[1]

The annual increase in CPI-U — often called headline inflation — was due in part to the fact that the index dropped in March 2020, the beginning of the U.S. economic shutdown in the face of the COVID-19 pandemic. Thus, the current 12-month comparison is to an unusual low point in prices. The index dropped even further in April 2020, and this "base effect" will continue to skew annual data through June.[2]

The monthly March increase, which followed a substantial 0.4% increase in February, is more indicative of the current situation. Economists expect inflation numbers to rise for some time. The question is whether they represent a temporary anomaly or the beginning of a more worrisome inflationary trend.[3]

Measuring Prices

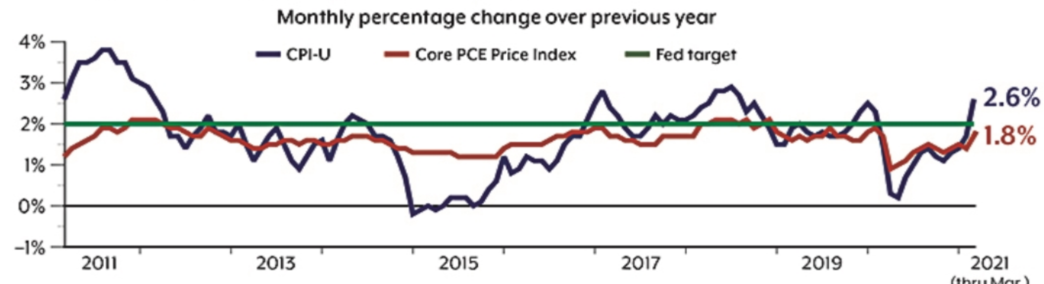
In considering the prospects for inflation, it's important to understand some of the measures that economists use.

CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of 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 specific categories. Nearly half of the March increase was due to gasoline prices, which rose 9.1% during the month, in part because of production interruptions caused by severe winter storms in Texas.[4] Core CPI, which strips out volatile food and energy prices, rose 0.3% in March and just 1.6% year over year.[5]

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 0.4% in March and 1.8% for the previous 12 months, slightly higher than core CPI but still lower than the Fed's target of 2% for healthy economic growth.[6]

Consumer Price Spike

Although the Consumer Price Index (CPI-U) spiked in March, the core PCE Price Index — the Fed's preferred inflation measure — remained below the 2% target for healthy inflation.



Sources: U.S. Bureau of Labor Statistics, 2021; U.S. Bureau of Economic Analysis, 2021

A Hot Economy

Based on the core numbers, inflation is not yet running high, but there are clear inflationary pressures on the U.S. economy. Loose monetary policies by the central bank and trillions of dollars in government stimulus could create excess money supply as the economy reopens. Pent-up consumer demand for goods and services is likely to rise quickly, fueled by stimulus payments and healthy savings accounts built by those who worked through the pandemic with little opportunity to spend their earnings. Businesses that shut down or cut back when the economy was closed may not be able to ramp up quickly enough to meet demand. Supply-chain disruptions and higher costs for raw materials, transportation, and labor have already led some businesses to raise prices.[7]

According to the April Wall Street Journal Economic Forecasting Survey, gross domestic product (GDP) is expected to increase at an annualized rate of 8.4% in the second quarter of 2021 and by 6.4% for the year —

a torrid annual growth rate that would be the highest since 1984. As with the base effect for inflation, it's important to keep in mind that this follows a 3.5% GDP decline in 2020. Even so, the expectation is for a hot economy through the end of the year, followed by solid 3.2% growth in 2022 before slowing down to 2.4% in 2023.[8-9]

Three Scenarios

Will the economy get too hot to handle? Though all economists expect inflation numbers to rise in the near term, there are three different views on the potential long-term effects.

The most sanguine perspective, held by many economic policymakers including Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen, is that the impact will be short-lived and due primarily to the base effect with little or no long-term consequences.[10] Inflation has been abnormally low since the Great Recession, consistently lagging the Fed's 2% target. In August 2020, the Federal Open Market Committee (FOMC) announced that it would allow inflation to run moderately above 2% for some time in order to create a 2% *average* over the longer term. Given this policy, the FOMC is unlikely to raise interest rates unless core PCE inflation runs well above 2% for an extended period.[11] The mid-March FOMC projection sees core PCE inflation at just 2.2% by the end of 2021, and the benchmark federal funds rate remaining at 0.0% to 0.25% through the end of 2023.[12]

The second view believes that inflation may last longer, with potentially wider consequences, but that any effects will be temporary and reversible. The third perspective is that inflation could become a more extended problem that may be difficult to control. Both camps project that the base effects will be amplified by "demand-pull" inflation, where demand exceeds supply and pushes prices upward. The more extreme view believes this might lead to a "cost-push" effect and inflationary feedback loop where businesses, faced with less competition and higher costs, would raise prices preemptively, and workers would demand higher wages in response.[13]

Maintaining Perspective

Although it's too early to tell whether current inflation numbers will lead to a longer-term shift, you can expect higher prices for some items as the economy reopens. Consumers don't like higher prices, but it's important to keep these increases in perspective. Gasoline, jet fuel, and other petroleum prices are rising after being deeply depressed during the pandemic. Airline ticket prices are increasing but remain below their pre-pandemic level. Used cars and trucks are more expensive than before the pandemic, but clothing is still cheaper.[14] Food is up 3.5% over the last 12 months, a significant increase but not extreme for prices that tend to be volatile.[15]

For now, it may be helpful to remember that "headline inflation" does not always represent the larger economy. And with interest rates near zero, the Federal Reserve has plenty of room to make any necessary adjustments to monetary policy.

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

1, 5, 15) U.S. Bureau of Labor Statistics, 2021

2-4, 7) *The Wall Street Journal,* April 13, 2021

6, 9) U.S. Bureau of Economic Analysis, 2021

8) The Wall Street Journal Economic Forecasting Survey, April 2021

10, 13) Bloomberg, March 29, 2021

11) *The Wall Street Journal,* April 14, 2021

12) Federal Reserve, 2021

14) *The New York Times,* April 13, 2021

The [American Families Plan](#) includes $1.8 trillion in proposed investments and tax credits for American families and children over a period of 10 years, as well as tax increases for those who earn more than $400,000 annually.

American Families Plan Would Provide Benefits for Some, More Taxes for Others

On April 28, 2021, the White House released a fact sheet for President Biden's American Families Plan (AFP), which proposes about $1 trillion in investments and $800 billion in tax cuts. There would also be tax increases for those making more than $400,000 per year. Major provisions proposed in the plan are summarized here, including some tax provisions.

Education

The AFP proposes the following:

- Free universal pre-school for all three- and four-year olds.
- Two years of free community college.
- Increased assistance to low-income students by raising the maximum Pell Grant award that pays for college education by about $1,400.

Child care

Low- and middle-income families would pay no more than 7% of their income on child care.

Nutrition

Summer and school meal programs would be expanded for low-income families.

Unemployment insurance

Funds would be provided for unemployment system modernization, equitable access, and fraud prevention. The plan proposes to automatically adjust the length and amount of unemployment insurance benefits depending on economic conditions.

Paid leave

A national comprehensive paid family and medical leave program would be created and scaled in over a 10-year period.

Health insurance

- The American Rescue Plan Act of 2021 (ARPA 2021), enacted in March 2021, provided that persons who bought their own health insurance through a government exchange might qualify for a lower cost through December 31, 2022. The AFP would make that provision permanent.
- The AFP would also lower prescription drug prices by letting Medicare negotiate prices.
- In addition, the AFP would create a public option and the option for people to enroll in Medicare at age 60.

Child tax credit

ARPA 2021 made the following temporary changes to the child tax credit. For 2021, the credit amount increased from $2,000 to $3,000 per qualifying child ($3,600 for qualifying children under age 6), subject to phaseout based on modified adjusted gross income. The legislation also made 17-year-olds eligible as qualifying children in 2021. For most taxpayers, the credit is fully refundable for 2021 if it exceeds tax liability. The Treasury Department is expected to send out periodic advance payments (to be worked out by the Treasury) for up to one-half of the refundable credit during 2021.

The AFP would make permanent the full refundability of the child tax credit, and extend the other child tax credit provisions through 2025. Longer term, the plan would seek to make all these provisions permanent.

Child and dependent care tax credit

ARPA 2021 made the following temporary changes to the child and dependent care tax credit. For 2021, the legislation increased the maximum credit up to $4,000 for one qualifying individual and up to $8,000 for two or more (based on an increased applicable percentage of 50% of costs paid and increased dollar limits). Most taxpayers will not have the applicable percentage reduced (can be reduced from 50% to 20% if AGI exceeds a substantially increased $125,000) in 2021. However, the applicable percentage can now also be reduced from 20% down to 0% if the taxpayer's AGI exceeds $400,000 in 2021. For most individuals, the credit is fully refundable for 2021 if it exceeds tax liability.

The AFP would make these provisions permanent.

Earned income tax credit

In addition to some other changes to the earned income tax credit (some temporary, some permanent), ARPA 2021 made the following temporary changes to the earned income tax credit for 2021. The legislation generally increased the credit available for individuals with no qualifying children (bringing it closer to the amounts for individuals with one, two, or three or more children which were already much higher). For individuals with no qualifying children, the minimum age at which the credit can be claimed was generally lowered from 25 to 19 (24 for certain full-time students) and the maximum age limit of 64 was eliminated (there are no similar age limits for individuals with qualifying children).

The AFP would make these provisions permanent for individuals with no qualifying children.

Increase in top tax rate on wealthiest taxpayers

The AFP would raise the top income tax rate on individuals back up to 39.6%, applying only to the top one percent. The 39.6% rate would also apply to the capital gains and dividends of households making over $1 million (the top 0.3 percent).

Stepped-up basis

The tax basis of most property is stepped-up (or down) to fair market value when an individual dies. The AFP would eliminate this step-up in basis for gains in excess of $1 million ($2.5 million per couple when combined with existing real estate exemptions). There would be provisions designed with protections for family-owned businesses and farms.

Like-kind exchanges

Current tax law allows real estate investors to defer taxes when they exchange property. The AFP would eliminate the tax deferral on like-kind exchanges for gains greater than $500,000.

If you are a landlord, you might reach out to tenants who are behind on rent and encourage them to explore any potential opportunities for financial assistance.

Crisis Averted? Financial Help for Struggling Renters and Landlords

By one estimate, U.S. landlords were owed about $57 billion in unpaid back rent at the beginning of 2021. The average household that fell behind owed about four months of rent, or $5,600. Altogether, more than 10 million U.S. families were facing the possibility of eviction.[1]

Many landlords, including those who depend on rent payments for retirement income, have experienced financial difficulties in lockstep with their heavily impacted tenants. Although multi-family apartment complexes are often owned by large corporations, about 90% of single-family rentals are owned by small investors who are facing the risk of mortgage default, bankruptcy, or forced property sales.[2]

Fortunately, the March 2021 federal stimulus bill added almost $22 billion in housing assistance to the $25 billion previously allocated by Congress.[3] In many cases, payments are being sent directly to landlords through new or existing local programs on behalf of renters who meet certain eligibility requirements.

Program parameters

Under the Emergency Rental Assistance Program (ERAP), the U.S. Treasury has distributed grants to states, cities, and counties with populations greater than 200,000 to be used for back-due rent and utility bills accrued after March 13, 2020. Eligibility is limited to households that earn less than 80% of the area's median income, as defined by the Department of Housing and Urban Development.

Applicants must document their incomes, prove they qualified for unemployment benefits or suffered financial hardship due to COVID-19 that impacted their ability to pay rent, and submit unpaid bills or notices that demonstrate they are at risk of becoming homeless.

What can landlords do?

Tenants and landlords generally apply for the funds together, but the application process and guidelines differ from program to program. In some states, landlords may be asked to forgive a percentage of the rental arrears in exchange for larger rent payments.

If you are a landlord, you might reach out to tenants who are behind on rent and encourage them to explore any potential opportunities for financial assistance. Check the websites of your state and local housing agencies to find the status and requirements of various housing programs and how to apply. Of course, many higher-earning households won't be eligible for help, and in areas with lots of lower-income renters, local programs could run dry quickly.

Evicting tenants can be a painful and expensive process. If you have tenants who fell behind but are trying to catch up, it may be advantageous to work out a payment program instead to help keep them in place.

1) Moody's Analytics, 2021

2) RealtyTrac, 2021

3) *The Wall Street Journal,* March 11, 2021

Retirement Confidence Remains Strong, Despite Pandemic

Workers who said that they or their spouse participate in a retirement plan were much more likely to have calculated a retirement savings goal than those who do not participate in one.

Despite the economic shock of the coronavirus pandemic, American workers and retirees remain largely optimistic about their financial prospects for retirement.

In its annual Retirement Confidence Survey conducted in January 2021, the Employee Benefit Research Institute (EBRI) found that 80% of retirees and 72% of workers were either very or somewhat confident in their ability to afford a comfortable retirement.

Pandemic effects

"Even with changes in the labor market, workers' confidence in their ability to live comfortably in retirement remains high overall," said Craig Copeland, EBRI senior research associate and the study's co-author.

On the other hand, he continued, "Three in 10 workers say the pandemic has negatively impacted their ability to save for retirement due to reduced hours, income, or job changes." Workers who said their ability to save was negatively affected were those who have historically reported lower confidence, including individuals with low income and debt-management challenges.

Nearly four in 10 workers said their households experienced a negative job or income change since February 1, 2020. One in 10 were furloughed or temporarily laid off, while 18% said their hours and/or pay were reduced. Half of workers who reported a negative change said they were either somewhat or significantly less confident in their ability to retire comfortably because of the pandemic.

By contrast, 21% of workers reported having some type of positive change during the pandemic, and just 17% now plan to retire later than anticipated because of the crisis.

Retirees seemed even more resilient. Eight in 10 said their overall lifestyle is what they expected or better than they anticipated — results that remained virtually unchanged from the January 2020 survey. Just 26% of retirees said their expenses are higher than expected, a decrease from the 2020 results. About 70% said their retirement confidence was not affected by the pandemic. Study co-author Lisa Greenwald speculated that some of this confidence may be because retirees spent less overall during 2020, a year with limited opportunities to travel and enjoy other leisure activities.

The survey also revealed stronger confidence in Social Security and Medicare, perhaps because benefits continued uninterrupted throughout the challenging year. Both retirees and workers reported the highest-ever confidence levels in the ability of Social Security to continue providing benefits at least equal to what is received today. And despite critical health-care concerns during 2020, 75% of retirees and nearly 60% of workers were confident in the future of Medicare — another record high.

Other findings

The Retirement Confidence Survey consistently finds that workers expect to leave the workforce at a later age than that of actual retirees. In 2021, 64% of workers said they expect to retire at age 65 or older; however, 71% of retirees actually left work before age 65. Similarly, 72% of workers said they expect to earn a paycheck during their retirement years, while just 30% of retirees said they have worked for pay in retirement.

Half of workers said they and/or their spouse have tried to calculate how much they will need to save to live comfortably in retirement. Workers who participate in a retirement plan are far more likely to have performed this calculation than those who do not.

One-third of workers said they currently work with a financial professional. Of those who didn't, 38% expect to do so in the future. There is no assurance that working with a financial professional will improve investment results.

Following are other sources of information workers use for retirement planning:

- Family and friends: 35%
- Online resources and independent research: 35%
- Their employer or information received at work: 22%
- Online advice or advisors who provide guidance based on formulas: 17%
- Representatives from their workplace retirement plan provider: 16%

For more information, please visit [www.ebri.org.](http://www.ebri.org)

Coordinating Long-Term Care Insurance with Government Benefits

If you're a senior, the future may present more of a concern than it once did--you may wonder what you'll do if your health deteriorates. If you must enter a nursing home, for example, how will you pay for it? Fortunately, you may have several options. One such option is long-term care insurance (LTCI). Government-regulated programs can also help. These include Medicare, Medigap, and Medicaid.

If you lack sufficient resources to pay for long-term care on your own, should you buy LTCI, rely only on government programs, or use an LTCI policy to supplement government benefits? Before you can answer this question, you'll need to know what types of long-term care are covered under each program. Figuring out where one program leaves off and another begins can be a challenge, so here's an overview.

The three types of long-term care

There are basically three types of long-term care: skilled care, intermediate care, and custodial care. You need to understand how these types of care are defined, and the extent to which you can obtain coverage for each of them.

What is skilled care?

Skilled care is continuous round-the-clock care required to treat a medical condition. It is ordered by a doctor and usually delivered by a skilled medical worker (e.g., a registered nurse or professional therapist). A treatment plan is established and supervised by a doctor.

Medicare's coverage of skilled care

Medicare is a federal health insurance program for people age 65 and older and certain others. It provides 100 percent coverage for the first 20 days in each benefit period (year) that you're in a skilled care facility--as long as certain conditions are met:

- Before moving into a skilled care facility, you must have spent at least 3 consecutive days in the hospital for the same condition
- This hospital stay must be within 30 days of the time you enter the skilled care facility, and
- Skilled care must be provided in a certified facility

You are required to pay a daily co-payment for the 21st through 100th day in a skilled care facility, but Medicare covers any expenses beyond this amount. Medicare provides no coverage for expenses incurred after the 100th day.

Medigap's coverage of skilled care

Medigap is supplemental health insurance sold by private insurance companies (under federal guidelines) to fill in some of the gaps in Medicare's coverage. Most Medigap plans cover your daily Medicare co-payment for the 21st to 100th day of skilled care.

Long-term care insurance's (LTCI's) coverage of skilled care

LTCI pays a selected dollar amount per day for a specified period for certain forms of care in nursing homes and other settings. You'll need LTCI if you want coverage beyond the 100th day of care in a skilled care facility. Because many people who enter such facilities stay for several years, LTCI can provide valuable financial protection.

What is intermediate care?

Intermediate care is care needed on only an occasional basis (daily or a few times a week), and is less specialized than skilled care. It is provided by trained medical workers under the supervision of a doctor.

Medicare and intermediate care

Medicare may cover certain types of intermediate care, but only under specific conditions. For example, it covers skilled nursing care, physical therapy, and speech therapy services provided in your home, but only if you are confined to your home and a doctor orders the services. Intermediate care in a nursing home is typically not covered by Medicare.

Medigap and intermediate care

Most Medigap policies provide an additional amount per at-home visit for intermediate care, but only if a doctor orders the services as a follow-up to an injury or illness. Intermediate care received in a nursing home is typically not covered by Medigap.

LTCI and intermediate care

Most LTCI policies provide coverage for intermediate care services provided in the home or in a facility. (Home health care and care in a facility can be purchased separately or together.) If you have the coverage for either home or facility care, LTCI will cover all three levels of care. In addition, many LTCI policies cover care received in continuing care retirement communities, assisted-living centers, and adult day-care centers.

What is custodial care?

Custodial care is provided to assist in performing the activities of daily living (e.g., bathing, eating, and dressing). It does not require a doctor's orders and can be performed by someone without professional medical skills. This type of care can be provided at home or in a facility.

Medicare and Medigap don't cover custodial care

Medicare provides no coverage for custodial care, because these services are generally nonmedical in nature. Medigap also provides no coverage for custodial care.

LTCI does cover custodial care

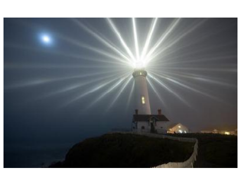
If you are concerned about coverage for custodial care, an LTCI policy may be appropriate. Along with coverage for personal care, many policies may also include coverage for light housekeeping, meal preparation, and laundry services, among other things. If you have the coverage for either home or facility care, it will cover all three levels of care. When you're shopping for an LTCI policy, keep in mind that most long-term care is custodial in nature.

Using Medicaid to pay for your long-term care expenses

Medicaid is a joint federal-state program that provides medical assistance to low-income individuals who are aged, disabled, or blind. To qualify for Medicaid's long-term care benefits, you must be financially and medically eligible. Financial eligibility is based on the amount of your income and the value of your assets. In most states, Medicaid will pay for all three levels of care if you meet the same general medical requirements that would be present in an LTCI policy.

Unfortunately, meeting Medicaid's financial requirements is difficult. In fact, many people are forced to exhaust their life savings to qualify for Medicaid. Others will not meet the requirements for Medicaid and will be unable to rely on the government to care for them. A comprehensive LTCI policy can help pay for long-term care costs and preserve family assets.

Note: The Deficit Reduction Act of 2005 gave all states the option of enacting long-term care partnership programs that combine private LTCI with Medicaid coverage. Partnership programs enable individuals to pay for long-term care and preserve some of their wealth. Although state programs vary, individuals who purchase partnership-approved LTCI policies, then exhaust policy benefits on long-term care services, will generally qualify for Medicaid without having to first spend down all or part of their assets (assuming they meet income and other eligibility requirements).



Facing the Possibility of Incapacity

Incapacity means that you are either mentally or physically unable to take care of yourself or your day-to-day affairs. Incapacity can result from serious physical injury, mental or physical illness, advancing age, and alcohol or drug abuse.

Incapacity can strike anyone at anytime

Even with today's medical miracles, it's a real possibility that you or your spouse could become incapable of handling your own medical or financial affairs. A serious illness or accident can happen suddenly at any age. Advancing age can bring senility, Alzheimer's disease, or other ailments that affect your ability to make sound decisions about your health, or to pay your bills, write checks, make deposits, sell assets, or otherwise conduct your affairs.

Planning ahead can ensure that your wishes are carried out

Designating one or more individuals to act on your behalf can help ensure that your wishes are carried out if you become incapacitated. Otherwise, a relative or friend must ask the court to appoint a guardian for you, a public procedure that can be emotionally draining, time consuming, and expensive. An attorney can help you prepare legal documents that will give individuals you trust the authority to manage your affairs.

Managing medical decisions with a living will, durable power of attorney for health care, or Do Not Resuscitate order

If you do not authorize someone to make medical decisions for you, medical care providers must prolong your life using artificial means, if necessary. With today's modern technology, physicians can sustain you for days and weeks (if not months or even years). If you wish to avoid this, you must have an advance medical directive. You may find that one, two, or all three types of advance medical directives are necessary to carry out all of your wishes for medical treatment (make sure all documents are consistent).

A living will allows you to approve or decline certain types of medical care, even if you will die as a result of the choice. However, in most states, living wills take effect only under certain circumstances, such as terminal injury or illness. Generally, one can be used only to decline medical treatment that "serves only to postpone the moment of death." Even in states that do not allow living wills, you might want to have one anyway to serve as evidence of your wishes.

A durable power of attorney for health care (known as a health-care proxy in some states) allows you to appoint a representative to make medical decisions for you. You decide how much power your representative will have.

A Do Not Resuscitate order (DNR) is a doctor's order that tells all other medical personnel not to perform CPR if you go into

cardiac arrest. There are two types of DNRs. One is effective only while you are hospitalized. The other is used while you are outside the hospital.

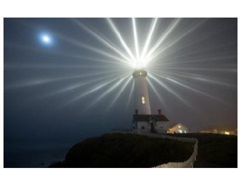
Managing your property with a living trust, durable power of attorney, or joint ownership

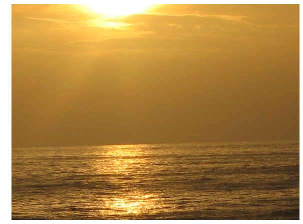
Consider putting in place at least one of the following options to help protect your property in the event you become incapacitated.

You can transfer ownership of your property to a revocable living trust. You name yourself as trustee and retain complete control over your affairs as long as you retain capacity. If you become incapacitated, your successor trustee (the person you named to run the trust if you can't) automatically steps in and takes over the management of your property. A living trust can survive your death, but it can be expensive to maintain and administer.

A durable power of attorney (DPOA) allows you to authorize someone else to act on your behalf. There are two types of DPOAs: an immediate DPOA, which is effective immediately, and a springing DPOA, which is not effective until you have become incapacitated. A DPOA should be fairly simple and inexpensive to implement. It also ends at your death. A springing DPOA is not permitted in some states, so you'll want to check with an attorney.

Another option is to hold your property in concert with others. This arrangement may allow someone else to have immediate access to the property and to use it to meet your needs. Joint ownership is simple and inexpensive to implement. However, there are some disadvantages to the joint ownership arrangement. Some examples include (1) your co-owner has immediate access to your property, (2) you lack the ability to direct the co-owner to use the property for your benefit, (3) naming someone who is not your spouse as co-owner may trigger gift tax consequences, and (4) if you die before the other joint owner(s), your property interests will pass to the other owner(s) without regard to your own intentions, which may be different.





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