

Fevergeon Financial Monthly

Planning Your Financial Future

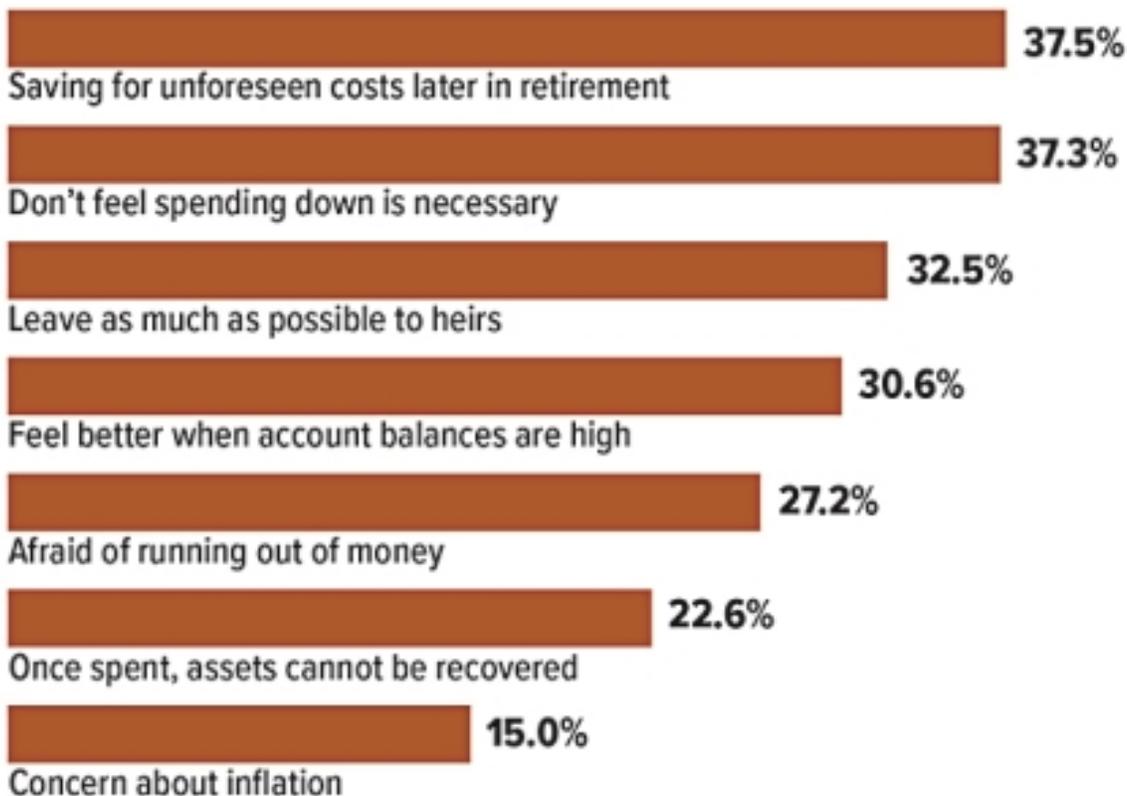


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To Spend or Not to Spend?

About 77% of retirees between the ages of 62 and 75 plan to spend down at least some of their retirement assets. The top reasons cited include lifestyle, medical expenses and health insurance, housing expenses, and discretionary spending. The remaining 23% intend to maintain or grow their assets. Why would retirees not want to spend down the assets they've worked so hard to save? Here are the reasons they gave.



Source: Employee Benefit Research Institute, 2021 (multiple responses allowed)

Following the Inflation Debate

During the 12 months ending in June 2021, consumer prices shot up 5.4%, the highest inflation rate since 2008.¹ 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.²

Monitoring Inflation

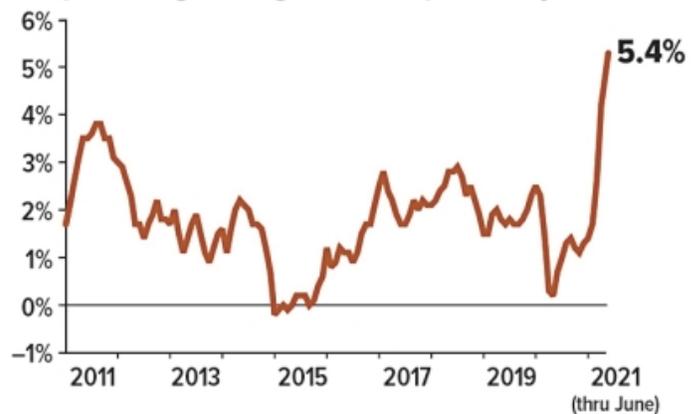
CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of the prices consumers pay if they buy the same items over time, but it does not reflect changes in consumer behavior and can be unduly influenced by extreme increases in one or more categories. In 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.³

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 2021.⁴

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."⁵ 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.⁶

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.⁷

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 2023.⁸ 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

Women Face Challenges in a Post-Pandemic World

The COVID-19 economic crisis tested the mettle of all Americans, particularly working mothers. Research shows that the pandemic's impacts on women have been far-reaching and potentially long-lasting. Now that the U.S. economy is picking up steam, it may be more important than ever for women to re-examine their retirement planning strategies.

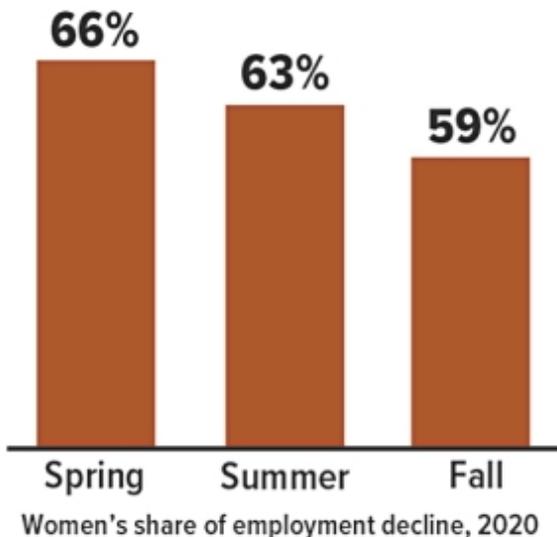
Effects of the COVID-19 Economy

The COVID-19 recession had a disproportionate impact on working women because sectors that typically employ them — including retail, hospitality, and health care — were hit harder than others. As noted in a paper released by the National Bureau of Economic Research, "Employment fell more for women compared to men at every stage during the pandemic, with the biggest gender differences estimated for married women with children." Many women were forced to cut work hours or leave jobs entirely to care for family members and supervise remote schooling activities when day cares and schools shut down.¹

In a Pew Research study, 64% of women said they or someone in their household lost a job or took a pay cut during the pandemic, and nearly a quarter took unpaid time off for personal, family, or medical reasons. Half of women ranked their personal financial situation as "only fair" or "poor."²

More Than Their Share of Job Losses

Prior to the pandemic, women made up 52% of the population. Yet they represented a larger proportion of the employment decline during the spring, summer, and fall seasons of 2020.



Source: National Bureau of Economic Research, 2021

Retirement at Risk?

When it comes to retirement savings, unmarried women have the most ground to cover, according to an Employee Benefit Research Institute survey. Nearly six in 10 have less than \$50,000 set aside for retirement; 31% have saved less than \$1,000.³

Couple these statistics with the retirement planning challenges women faced even prior to the pandemic — longer life spans and lower earnings and Social Security benefits, on average — and it's apparent that women need a carefully considered retirement strategy that will help them pursue their goals.

Making Up Lost Ground

If you or a loved one need to make up lost ground, consider the following tips.

1. Save as much as possible in tax-advantaged investment vehicles, such as employer-based retirement plans and IRAs. In 2021, you can contribute up to \$19,500 to 401(k) and similar plans and \$6,000 to IRAs. Those figures jump to \$26,000 and \$7,000, respectively, if you are age 50 or older. If your employer offers a match, be sure to contribute at least enough to take full advantage of it. If you have no income but you're married and file a joint income tax return, you can still contribute to a spousal IRA in your name, provided your spouse earns at least as much as you contribute.

2. Familiarize yourself with basic investing principles: dollar-cost averaging, diversification, and asset allocation. Dollar-cost averaging involves continuous investments in securities regardless of fluctuating prices and can be an effective way to accumulate shares to help meet long-term goals; however, you should consider your financial ability to continue making purchases during periods of low and high price levels. (If you contribute to an employer-based plan, you're already using dollar-cost averaging.) Diversification and asset allocation are methods used to help manage investment risk while building a portfolio appropriate for your needs. Note that all investment involves risk, and none of these strategies guarantees a profit or protects against investment loss.

3. Seek guidance from your financial professional, who can provide an objective opinion during challenging times and may be able to help you find ways to reduce costs and save more. Although there is no assurance that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies.

Sources: 1) National Bureau of Economic Research, 2021; 2) Pew Research Center, 2021; 3) Employee Benefit Research Institute, 2021

Net Price Calculators Help Gauge College Affordability

Fall is the time when many high school seniors narrow their college lists and start applying to colleges. One question that is often front and center on the minds of families is "how much will it cost?" To help answer that question, you can use a net price calculator, which is available on every college website.

How a net price calculator works. A net price calculator can help families measure a specific college's true cost by providing an estimate of how much grant aid a student might expect based on his or her financial information and academic profile. A college's sticker price minus grant aid equals a student's net price, or out-of-pocket cost.

The numbers quoted by a college net price calculator are not a *guarantee* of grant aid, but the estimates are meant to be close. By completing a net price calculator for several colleges before officially submitting an application, students can get an idea of what their out-of-pocket cost would be at specific schools and rank colleges based on affordability.

What information it asks for. A net price calculator typically asks for the following information: parent income and assets, student income and assets, a student's general academic record, and family size, including number of dependents. A net price calculator might also ask more detailed questions; for example, a student's class rank and test scores, the amount parents contributed to their employer retirement plans

in the last year, current home equity, or how much parents expect to pay in health-care costs in the coming year. Every college has its own net price calculator, so there may be slight variations in the questions that are asked.

A net price calculator takes about 10 to 15 minutes to complete. Typing "net price calculator" in the search bar of a college's website should direct you to it.

Results can vary. Keep in mind that colleges have different sticker prices and criteria for determining how much grant aid they offer, so calculator results can vary, even when the same financial information is being entered. For example, after entering identical financial information on three different calculators, families might find that College A has a net price of \$25,000 per year, College B a net price of \$30,000, and College C a net price of \$40,000. Running a net price calculator for colleges that are similar in terms of selectivity and sticker price can help families compare the generosity of colleges in a similar peer group.

Consider filing the FAFSA. The FAFSA for the 2022-2023 school year opens on October 1, 2021. Families should consider submitting it even if they don't expect their child to qualify for need-based federal aid, because some colleges may require the FAFSA as a prerequisite for college-provided need-based and/or merit-based grants and scholarships.

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