

# marrick wealth monthly

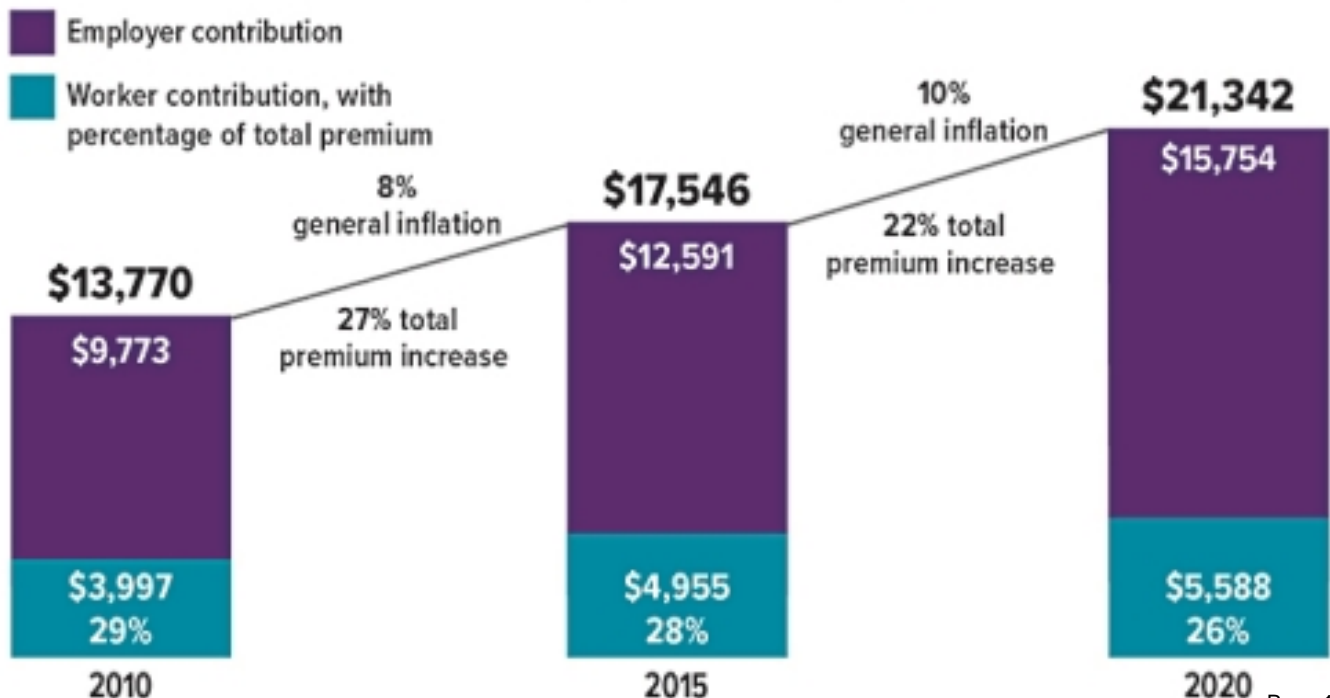


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## Rising Premiums

Approximately 157 million Americans are covered by employer-sponsored health insurance. From 2010 to 2020, premiums increased much faster than the rate of general inflation, although the increase has slowed somewhat in recent years. Employers absorbed the largest share of the premium increases, and the percentage paid by workers dropped over the period. However, workers are paying additional costs in the form of higher deductibles and other out-of-pocket expenses.

**Average annual employer and worker premium contributions for family coverage**



# 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

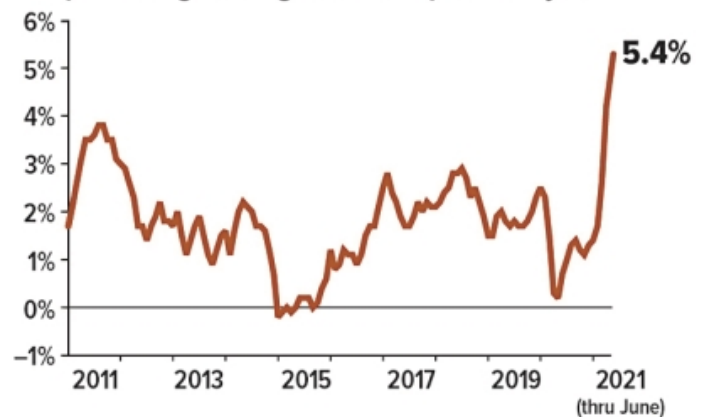
CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of the prices consumers pay if they buy the same items over time, but it does not reflect changes in consumer behavior and can be unduly influenced by extreme increases in one or more categories. In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

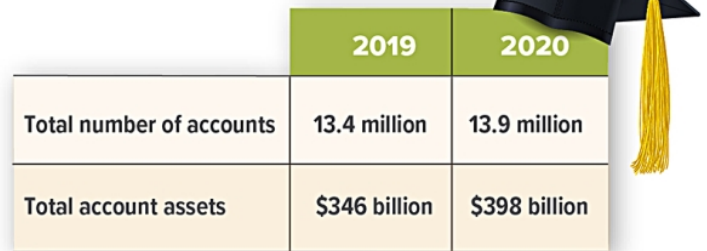
## New FAFSA Rules

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.*

# Signs of a Scam and How to Resist It

Although scammers often target older people, younger people who encounter scams are more likely to lose money to fraud, perhaps because they have less financial experience. When older people do fall for a scam, however, they tend to have higher losses.<sup>1</sup>

Regardless of your age or financial knowledge, you can be certain that criminals are hatching schemes to separate you from your money — and you should be especially vigilant in cyberspace. In a financial industry study, people who encountered scams through social media or a website were much more likely to engage with the scammer and lose money than those who were contacted by telephone, regular mail, or email.<sup>2</sup>

Here are four common practices that may help you identify a scam and avoid becoming a victim.<sup>3</sup>

**Scammers pretend to be from an organization you know.** They might claim to be from the IRS, the Social Security Administration, or a well-known agency or business. The IRS will never contact you by phone asking for money, and the Social Security Administration will never call to ask for your Social Security number or threaten your benefits. If you wonder whether a suspicious contact might be legitimate, contact the agency or business through a known number. Never provide personal or financial information in response to an unexpected contact.

**Scammers present a problem or a prize.** They might say you owe money, there's a problem with an

account, a virus on your computer, an emergency in your family, or that you won money but have to pay a fee to receive it. If you aren't aware of owing money, you probably don't. If you didn't enter a contest, you can't win a prize — and you wouldn't have to pay for it if you did. If you are concerned about your account, call the financial institution directly. Computer problems? Contact the appropriate technical support. If your "grandchild" or other "relative" calls asking for help, ask questions only the grandchild/relative would know and check with other family members.

**Scammers pressure you to act immediately.** They might say you will "miss out" on a great opportunity or be "in trouble" if you don't act now. Disengage immediately if you feel any pressure. A legitimate business will give you time to make a decision.

**Scammers tell you to pay in a specific way.** They may want you to send money through a wire transfer service or put funds on a gift card. Or they may send you a fake check, tell you to deposit it, and send them money. By the time you discover the check was fake, your money is gone. Never wire money or send a gift card to someone you don't know — it's like sending cash. And never pay money to receive money.

For more information, visit [consumer.ftc.gov/features/scam-alerts](https://consumer.ftc.gov/features/scam-alerts).

1, 3) Federal Trade Commission, 2020

2) FINRA Investor Education Foundation, 2019

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## IMPORTANT DISCLOSURES

This publication is not intended to provide investment, tax, or legal advice. 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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