

October 2021

(A Little Early)



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THE ISRAELITE GROUP
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The recent uptick in volatility seems long overdue in our opinion. Since April 2020, we have seen the markets rise in 13 out of the last 18 months with the down months being very benign. Several large banks and our own Chief Investment Strategist have upwardly revised their end of year price target for the S&P500 as interest rates and an expanding/recovering global economy seem favorable.

As always we expect market volatility. These times provide our investment managers with opportunities to make purchases at discounted prices. The key to successful long term investing remains diversification and diligence to stay the course even when volatility emerges.

In other news....

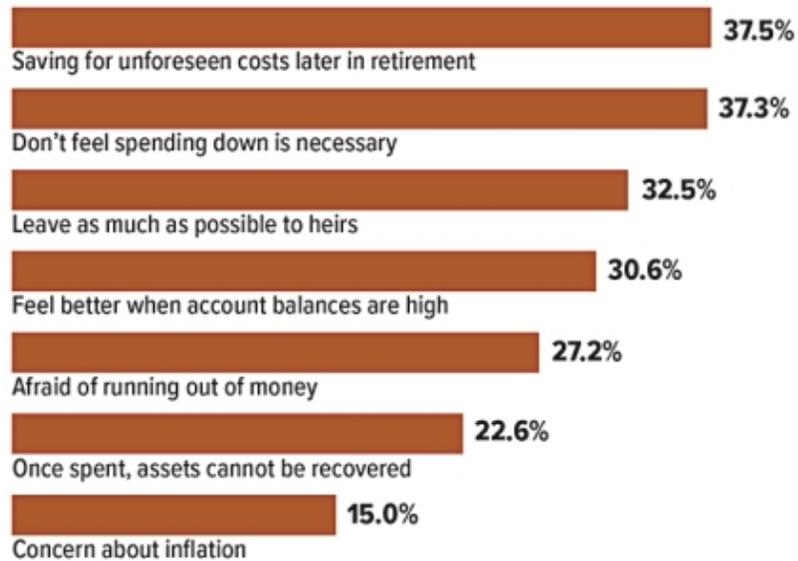
Lana had a baby boy on Monday! The entire family is doing great. Lana will be on maternity leave until the beginning of next year.

If you need anything please reach out to Chris, Sarah, or Dan.

The Israelite Group

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

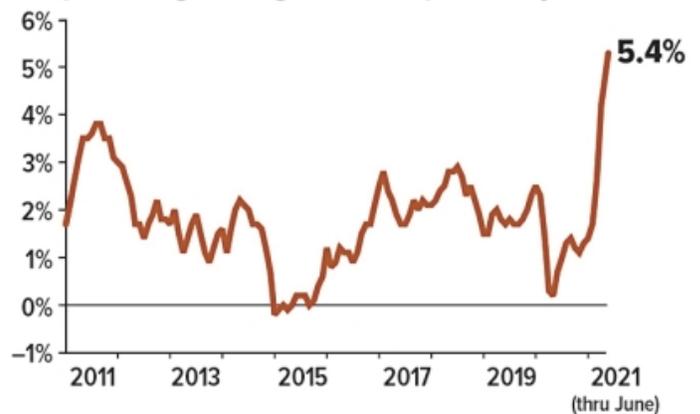
CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of the prices consumers pay if they buy the same items over time, but it does not reflect changes in consumer behavior and can be unduly influenced by extreme increases in one or more categories. In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

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.

A Map for Your Family

A will is an essential legal document that describes how your estate should be distributed upon your death. It is the basis for the probate process and can serve as a guide for your heirs.

A letter of instruction — which has no legal status — provides information that can help your loved ones settle your estate and move forward with their lives. You might consider it a map for your family.

Unlike a will, which must follow legal guidelines for your state and may require an attorney, a letter of instruction can be written yourself in any way you choose. Here are some topics you may want to address.

Financial accounts and account numbers, including online user names and passwords. If you prefer not to write down user names or passwords, the executor of your estate should be able to access accounts with the account numbers and your Social Security number.

List of documents and their locations, including (but not limited to) your will, insurance policies, tax returns, bank and investment account documents, real estate deeds and mortgage documents, vehicle titles, Social Security and Medicare cards, marriage and/or divorce papers, and birth certificate.

Contact information for professionals who handle your financial and legal affairs, such as your attorney, financial advisor, insurance agent, and accountant.

Also include others who may be helpful, such as a business partner or trusted friend.

Bills and creditors, including when payments are due and other pertinent information, such as loan terms and balances as of the date of the letter.



A letter of instruction could be just as important as a will to help your heirs settle your estate and move forward with their lives.

Your final wishes for burial or cremation, a funeral or memorial service, organ donation, and charitable contributions in your memory.

You might also include more personal thoughts or life lessons that you want to pass on, or you could write a separate letter. Keep your letter of instruction in a safe, yet accessible place and tell your loved ones where it can be found. It might be wise to give a copy of the letter to the executor of your estate and other trusted friends or advisers.

Be sure to review the letter regularly and update it as appropriate. Your heirs will thank you for taking the time to prepare.

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