Health & Retirement Services of Illinois
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OUR NEWS LETTER

3 types of inflation to worry about

Rick Newman·Senior Columnist July 13, 2021·5

The Biden White House thinks inflation is "transitory," but it sure hasn't transitioned away yet. Year-over-year inflation hit 5.3% in June, the highest level since 2008. Inflation has exceeded 4% for three months in a row, and economists think the trend will continue at least a little while longer.

Distortions from the coronavirus pandemic have obviously caused some of the wild price swings buffeting the economy. Some price surges will fade as supply and demand rebalances. Other price hikes are more worrisome, including rent, food and energy. If that inflation lasts, it could cause sustained consumer pain and undermine the recovery. It could also jolt financial markets by forcing the Federal Reserve to abandon its stimulative monetary policy sooner than expected.

First, the inflation that's most likely to fade. A variety of one-time factors have caused shortages of certain goods and anomalous price hikes. Looking at prices on a two-year basis, rather than just one, gives a sense of just how abnormal the supply-demand mismatch is for these products and services:

Used cars. This is the craziest anomaly in the economy right now. A shortage of semiconductors has slashed new-car production, leaving many buyers little choice but to shop used. As a result, used vehicle prices are up 45% during the last year. The two-year jump is 41%, indicating this is real inflation, not just a rebound from pandemic lows. But there's some good news, too. Used cars are (usually) cheaper than new ones, so most buyers stepping down are actually saving money. Some buyers can put off a car purchase until prices normalize. And the chip shortage should ease in coming months, with things ultimately returning to normal.

New cars. With used vehicles as an alternative, new-car prices have been holding steady—until June, when they jumped 5.3% on a 12-month basis. That suggests there are now shortages in the entire car market, new and used combined. But this too will ease in coming months as chips come back online.

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Airfares. They're up 24.6% year-over-year, which sounds like a lot. But they're still down 9% from two years ago, which makes this a kind of phantom inflation that shows up in the numbers but is still costing fliers less than normal.

Hotel rooms. Similar to airfares, they're up 15% over one year but down 1% over two years. Not something to worry about. The nation doesn't suffer an urgent shortage of hotels.

Rental cars. Prices have soared 88% during the last year, while the two-year surge is 76%. There are real shortages of vehicles because rental agencies slashed their fleets in 2020, thinking the coronavirus recession would last a lot longer than it did. More cars are coming, but rental firms face the same vehicle shortages as everybody else.

Clothing. Prices are up 4.9% during the last year, which might sound like a bit of a budgetary strain as workers head back to offices and parents begin to dress their kids for a new school year. But clothing prices are down 2.7% from two years ago, and they'll probably stabilize as consumer spending continues to rotate from goods to services such as travel.

Restaurant meals. Prices are up 4.2% over one year and 7.5% over two years. Is anybody complaining? The pandemic hammered the restaurant industry, with many outlets shutting down. Dining out is a luxury for many consumers, not a necessity, which will keep prices in check, even if costs are rising for some restaurants as they struggle to find workers and deal with their own spot shortages.

Inflation in these parts of the economy is most likely to ease, since one-time factors related to the pandemic are already sorting themselves out. Lumber is one striking example of how this has already happened. Prices soared earlier this year as consumers fixed up their pads and developers tried to meet blistering demand for new homes. Mills finally cranked out enough product to meet demand, and prices plunged. After nearly doubling, lumber prices are now down 25% for the year.

Other types of inflation could be more damaging. Here are three to worry about:

Rent. Rents are up 2.3% during the last year and 5.2%% over two years. The numbers aren't huge but rents could continue rising as the pandemic recedes and emergency measures protecting renters expire. Rents also tend to be "sticky," which means they don't necessarily come down once they go up. And they're obviously a much larger part of the family budget than restaurant meals or a work outfit. This may constitute a growing burden for many households.

Food consumed at home. Food prices are up a scant 1% during the last 12 months, but 6.5% over two years. Price hikes instituted during the early days of the pandemic—March, April and May of 2020—appear to be sticking.

Energy. Household energy costs are up 6.5% year-over-year, while gasoline is up 45%. Prices are still in what you might call the normal range, since they plunged last year and recovered this year. Gas prices, for instance, are still just 11% above 2019 levels. But the global recovery is prompting a burst in demand for oil, while producers are keeping supply relatively tight. Energy prices are volatile, of course, but that doesn’t make inflation less painful. The sooner the transition arrives, the better.

3 Retirement Income Mistakes to Avoid

After years of diligent saving, many retirees may be unsettled by the notion of actually tapping their portfolios. When should you start? How much is too much? What if you outlive your money? These are legitimate concerns, but by focusing solely on drawdowns, you could be overlooking other risks to the longevity of your savings.

Let's take a look at three common mistakes that can negatively impact your retirement income—and what to do about each.

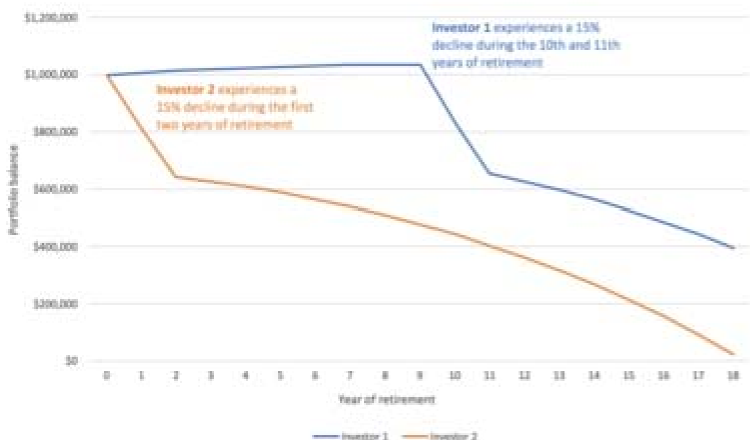
Mistake #1: Selling assets in a downturn

If your first few years of retirement coincide with a market decline, you'll probably need to sell more of your assets to fund the same withdrawal—leaving you with fewer shares and limiting your portfolio's ability to recover during a potential market rally.

If the decline is particularly steep or lasts for an extended period, it's even harder to bounce back (see "Timing is everything," below).

Timing is everything

This chart looks at how two retirees with identical portfolios and annual withdrawals could see very different results depending on when a market downturn occurred.



This chart is hypothetical and for illustrative purposes only.

Both hypothetical investors had a starting balance of $1 million, took an initial withdrawal of $50,000 and increased withdrawals 2% annually to account for inflation. Investor 2's portfolio assumes a negative 15% return for the first two years and a 6% return for years 3–18. Investor 1's portfolio assumes a 6% return for the first nine years, a negative 15% return for years 10–11 and a 6% return for years 12–18.[1]

So, what's an investor to do? I suggest two courses of action:

- Adjust your allocation: Consider moving a portion of your assets into investments that are more likely to weather market disruptions. We suggest that retirees keep a portion of their retirement portfolio in cash or cash alternatives and use that to help fund expenses. Then, consider allocating some to less-volatile investments, such as high-quality short-term bonds or short-term bond funds.
- Stay flexible: Regardless of when a downturn occurs, it's important to remain flexible with your spending plan. If you're able to reduce your spending and/or delay large purchases, your portfolio will tend to have a better chance of enduring a decline.

Mistake #2: Collecting Social Security too early

It's the age-old question: When should I start collecting Social Security? Many Americans opt to collect as soon as they become eligible at 62, but taking benefits before you reach full retirement age (from 65 to 67, depending on your birth year) means settling for smaller payments—for life.

If you're able to wait even a few years longer, you stand to receive a much larger monthly check (see "Delayed gratification," below).

Delayed gratification

Individuals who collect Social Security beginning at age 62 receive 25% less in monthly benefits than if they had waited until full retirement age (FRA)—and roughly 43% less than if they had waited until age 70.

Age	62	66 (FRA)	70
Monthly benefit	$750	$1,000	$1,320

Source: Social Security Administration. Benefits are based on FRA for individuals born from 1943 through 1954 and assume no inflation increases. For illustrative purposes only.

Waiting to collect can also help extend the life of your portfolio. True, you'll have to rely on your savings alone if you retire several years before you start collecting Social Security, but

the increased income that comes with deferral—which is guaranteed for as long as you live—can help preserve your portfolio later.

Furthermore, unlike most other retirement income sources, your Social Security benefit is adjusted upward in response to inflation—so bigger checks mean bigger cost-of-living adjustments. Of course, delaying benefits is feasible only if you don't require the income right away, so discuss your income needs and longevity expectations with a financial planner.

Mistake #3: Creating an inefficient distribution strategy

When it's time to turn your retirement savings into income, it might not be as simple as selling investments and pocketing the proceeds. Rather, using your assets to support you in retirement should take not only your income needs into account but also timing, taxes, life expectancy and account types.

Keep a close eye on taxes—especially once you reach age 72 (70½ if you turned 70½ in 2019 or earlier).. That's when the required minimum distributions (RMDs) the IRS obliges you to take from your 401(k)s and SEP, SIMPLE and traditional Individual Retirement Accounts (IRAs) kick in.

For example, if RMDs push up your taxable income, not only could you pay more on your regular income and Social Security benefits but you might also owe taxes on the long-term capital gains and qualified dividends in your nonretirement accounts.

This is where a distribution strategy can help. For example, some retirees might choose to take withdrawals from tax-deferred accounts like traditional IRAs prior to age 72—when they have more flexibility to decide how and when to take distributions—in order to help reduce the size of their portfolios and thus the size of their RMDs, as well as manage their overall tax bill.

Keep in mind that withdrawals from tax-deferred accounts prior to age 59 ½ may be subject to an additional 10% penalty so it's usually best to try to avoid withdrawals prior to that age.

Other retirees may opt to convert some of their retirement assets into Roth IRAs,[2] which are not subject to annual RMD requirements.

Whatever you decide, make sure to work with a financial planner and tax advisor to think through the details of your distribution plan.

[1] Does not reflect expenses, fees or taxes.

[2] A Roth IRA conversion results in taxation of any untaxed amounts in the traditional IRA and requires a five-year holding period before earnings can be withdrawn tax-free; subsequent conversions will require their own five-year holding period. In addition, earnings distributions prior to age 59½ are subject to an early-withdrawal penalty.

Revealed – who is being disproportionately impacted by rising home insurance rates?

Rising home insurance premiums disproportionately impact seniors and homeowners with low credit scores, according to a new study from insurtech platform Matic.

Matic's mid-year survey reviewed trends from 45,000 policies and 3.2 million quotes. It found that home insurance premiums grew an average of 4% year over year. The survey found that increasing home insurance premiums disproportionately affects those with FICO scores below 580 – as homeowners with this factor saw the largest increase in premiums at an average of 6.4%.

"In most states, an insurance score, which is partially driven by a credit rating, represents the probability of a claim being files, and affects the premium a homeowner will pay for coverage," said Ben Madick, co-founder and CEO of Matic Insurance. " The housing market, the cost of materials, and the cost of labor were on the rise even before COVID-19.

"We're now seeing those increases reflected in the estimated replacement cost of the home (Coverage A) which ultimately drive increases in insurance premiums, among other factors. While homeowners with lower FICO scores experienced a disproportionate increase, they are receiving better coverage and the gap between premiums and Coverage A is closing."

The study also found that homeowners over the age of 63 are the most susceptible to overpaying for home insurance. While premiums tend to be highest for homeowners between 43 and 55 years old, premiums for seniors do not drop proportionately, Matic found. The data suggested that seniors are overpaying due to not regularly checking their policies and annual premium increases adding up over time. Matic found that seniors could save an average of $751 per year simply by monitoring, reviewing and adjusting their insurance policies.

"Many factors contribute to extensive savings," Madick said. "Home improvements and bundling auto might play a role, but the most common occurrence is from a customer that has lived in the same house for over 20 years. Even without claims, a homeowner will likely experience a 3% to 4% increase in premiums each year. Over time, that increase is not insignificant."

Industry studies have found that 40% of homeowners have not reviewed their policy within the last two years.

How the unvaccinated threaten the economy

Rick Newman Senior Columnist

Sure, it's a personal decision. But choosing to forgo the coronavirus vaccine could delay school reopenings, send some consumers back to lockdown and harm the overall economy.

The delta variant of the coronavirus now accounts for most infections in the United States, and it's causing worrisome new outbreaks in areas with low vaccination rates. In Florida, which has a lower vaccination rate than the national average, caseloads nearly tripled from June to July. The sunshine state now has the largest caseload in the country. Other areas with worsening infection rates include southern states such as Georgia and Louisiana and mountain states such as Idaho and Wyoming.

Coronavirus death rates fell sharply for most of 2021, as vaccines made their way into arms. But the University of Washington now forecasts an increase in deaths through the end of summer and into the fall. This fatal backsliding, of course, is largely self-inflicted, since vaccines are widely available and free. The federal government will now once again recommend indoor masking in areas suffering outbreaks. Schools, government agencies and many employers are beginning to require vaccinations.

New masking rules and vaccine mandates will intensify the debate over Americans' right to behave foolishly. But they also highlight the economic cost of refusing vaccinations, as the recovery that looked robust earlier this year slows. "The delta variant of the COVID-19 virus is an emerging threat to our optimistic economic outlook," Mark Zandi, chief economist at Moody's Analytics, wrote in a July 27 analysis. "The variant will do meaningful economic damage if it causes people to resume sheltering in place and forces schools to remain online when the school year starts in a few weeks."

Low-vax states with delta outbreaks don't account for the majority of the nation's population or economic activity. But they tend to be places that were recovering faster than big urban centers, because southern and mountain states have less population density, and in the south, more outdoor activity. That provided some innate protection compared with people packed tightly in cities. So some of the bright spots in the recovery are now dimming.

JPMorgan Chase recently lowered its forecast for second-quarter GDP growth from 9% to 8% (annualized), saying in a research note, "The delta variant may impart a little more caution in consumer behavior, and we are adjusting our Q3 real consumption forecast lower."

In Florida, a "back-to-normal index" maintained by Moody's Analytics and CNN Business has dipped as the number of delta infections has surged. Some public-health experts say Americans shouldn't travel to Florida right now, given that 20% of all new coronavirus infections in the country are surfacing there.

Diane Swonk, chief economist at Grant Thornton, says Federal Reserve Chair Jerome Powell is likely to cite the delta variant as an economic risk. “Powell will have to acknowledge the downside risks that are beginning to emerge from the spread of the delta variant,” Swonk writes. “The course of contagion in high contact areas including restaurants, bars and theaters could dampen consumers’ willingness to congregate unless they can be assured that attendees are vaccinated.” She predicts Powell will cite this sort of risk after the Fed’s two-day meeting concludes on July 28.

There seems little chance of government-imposed lockdowns similar to those at the start of the pandemic last year. Vaccinations are working, for those who get them, with infection rates plummeting in areas with high vaccination rates. Even President Biden, who drew criticism for publicly wearing a mask after it seemed unnecessary, isn’t suggesting any kind of new government mandate.

But some workers and consumers remain concerned about unsafe conditions and could lock themselves down as conditions worsen in some areas. Census Bureau data suggests about 4 million Americans are choosing not to work because they’re concerned about contracting the virus—one underappreciated cause of the so-called labor shortage. Recent Axios/Ipsos polling finds that the portion of Americans social distancing for health reasons rose from 34% in June to 43% in July. And the portion saying life is risky because of the virus rose by 11 points. If that sort of reaction to the unvaccinated problem persists, it will cut into activity, spending and hiring.

Virtually all of the states enduring infection spikes have Republican governors who cut off federal jobless benefits for their residents this summer, before the program expires in September. That was supposed to boost the incentive to look for a job, but instead it seems to have added to people’s financial hardship with no offsetting benefit. Those states are now losing billions of dollars in federal money that would have gone into their regional economies as the unvaccinated problem threatens to suppress growth. Refusing an economic inoculation might end up as regrettable as refusing a medical one.

Divorce After 50: The Impact on Retirement Savings

Divorce after 50—the rate of which has doubled since 1990[1]—can have an outsize impact on your financial security. Indeed, parting ways with your spouse can potentially halve your assets while doubling your expenses, which can be especially detrimental when you don't have decades to regroup and rebuild.

"After a long marriage, there's a greater likelihood that much of a couple's wealth resides in assets acquired together over the years," says Bob Barth, a Schwab wealth strategist based in Orlando, Florida.

How those assets will be divided varies considerably depending on where you live. For example, in the nine community property states—Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin—all earnings and everything acquired with those earnings during the marriage are generally divided 50/50. In common law states, on the other hand, marital assets should be divided "equitably," a standard that gives courts considerable discretion in deciding what's fair.

Even assets that are understood to be separate—such as certain types of inheritances (see "Whose inheritance is it, anyway?" below)—may still figure into how a court decides who gets what. "You'll want the help of your financial advisor, an accountant, and a lawyer well-versed in state-specific rules," Bob says. "Divorce is complicated, and there are a lot of different ways you can approach it." In addition, these rules are constantly evolving in the law.

For older couples, sources of retirement savings can loom especially large—because of both their size and how soon you're likely to need them. What's more, such assets often are governed by their own rules regarding how they can be divvied up. With that in mind, let's look at three assets of special relevance to later-in-life divorce.

1. Retirement accounts

By law, 401(k)s and individual retirement accounts (IRAs) can have only a sole account holder. However, the money that goes into such accounts during a marriage technically belongs to both parties. As part of the divorce settlement, the spouse with a higher balance may need to transfer funds to the other spouse's account.

In the case of 401(k) funds, both spouses need to file a qualified domestic relations order (QDRO) with a state-level domestic-relations court to spell out how they want the money divided. Each spouse should keep these three things in mind:

- The most tax-efficient method for the receiving spouse is to roll such funds directly into their own retirement account.
- The receiving spouse can also qualify to have some 401(k) funds distributed directly for immediate expenses. (Such distributions are exempt from the 10% early withdrawal penalty for those younger than 59½, though the receiving spouse would still be subject to 20% withholding for federal taxes, plus any applicable state taxes.)
- Any funds transferred directly to the receiving spouse cannot later be deposited into that spouse's IRA, and any rollover to an IRA must occur within 60 days of the receipt of the

money, otherwise, the IRS will consider the funds taxable income (minus the 20% withholding).

QDROs don’t apply to IRA assets. However, a direct rollover from one spouse’s IRA to another spouse’s IRA—again, the most tax-efficient method—can occur only if outlined in the divorce settlement and filed with the plan custodian.

Alternatively, account holders worried about jeopardizing their retirement savings might instead be able to relinquish other assets—a greater stake in the equity of a home or the contents of an investment account, for example—to satisfy their financial obligations to the other spouse.

“Either way, states have a vested interest in seeing that no one comes out of a divorce facing unnecessary financial strain,” Bob says. “So, when a married couple has saved successfully for retirement, those funds are generally used to ensure that both parties end up financially secure.”

2. Pensions

The court typically considers a defined-benefit pension that one spouse earned during the marriage as a shared asset, too. “This can become an emotional issue,” Bob cautions. “If one spouse has put in the time to earn a pension, he or she may feel territorial about it.”

As with a 401(k) or an IRA, a qualifying spouse would be entitled to only that portion of the pension earned during the marriage. However, pension plan rules, state laws, and whether a spouse has already begun receiving payments can make divvying up pension assets more complicated than parsing retirement accounts.

If only one spouse has a pension, he or she may wish to offer up other assets of equal value rather than haggle over the pension itself. When both spouses have a pension but they’re of unequal value, the spouse with the larger pension might make up the difference by purchasing a single premium life insurance policy and naming their former spouse as the beneficiary rather than forfeit a portion of his or her pension.

“In both cases, you’re offsetting the amount your ex would have received from your pension with something of equal value,” Bob says.

3. Social Security

In contrast to retirement accounts and pensions, which may be subject to a lot of wrangling and compromise, the handling of Social Security benefits in divorce is controlled by law and is rarely open to interpretation. “The Social Security benefit is what it is—though keep in mind it may become part of the larger discussion around who gets what, which can itself be contentious,” Bob says.

If the couple was married for at least 10 years before splitting, the ex-spouse will be eligible to apply for monthly benefits worth up to 50% of the higher earner’s full retirement-age benefit. (If the lower earner remarries, however, he or she forgoes any claim to such benefits in most cases.)

This ex-spousal benefit in no way affects the benefit of the higher-earning spouse—no matter how many times he or she has been married and divorced. “In that respect, this is a rare win-win—an ex-spousal benefit that costs absolutely nothing for the spouse on whom it depends,” Bob says.

Moving forward

Once your divorce is final, you should consider how your new situation impacts your current and future finances. Toward that end, revisit your financial plan to ensure you’re still on track to reach your goals. You should also update your will and account beneficiaries with your new situation in mind.

“Make sure you update your beneficiary designations, in particular, as soon as your divorce is finalized,” Bob says. “If you don’t, you run the risk of leaving additional assets to your ex, as some states don’t automatically nullify such designations after divorce.”

The truth is, most people don’t plan for divorce—especially relatively late in life. But working with a financial advisor before, during, and after your split can help both parties get back on track as quickly as possible. “If you find yourself facing divorce *and* retirement,” Bob says, “there are definitely concrete steps you can take to limit the impact on your future.”

How to prevent injuries

Getting older doesn't mean having to give up activities you enjoy. **According to the CDC,** you can prevent many common injuries by taking simple steps, so you can stay healthy and independent longer.

Here's how to age without injury:

1. **Talk with your doctor about fall prevention, and health conditions** like osteoporosis or hypotension (low blood pressure) that can increase your risk of falling. Medicare covers **bone mass measurement,** the best way to know if you have (or are at risk for) osteoporosis, if you meet certain conditions.
2. **Ask your doctor or pharmacist to review the medicines you take.** Some medicines may make you dizzy or sleepy, which can increase your risk of injury.
3. **Stay active.** Do exercises to strengthen your legs and **improve your balance.**

Older Adults

Injuries from falls and car crashes are more common as we age. These injuries can have devastating effects. But these injuries can be prevented so you can stay healthy and independent longer.

Preventing a Fall

More than 1 in 4 older adults report falling each year—this results in about 36 million falls.[1] Falls can cause serious injuries such as broken bones or a head or brain injury.[2] But falls are not a normal part of aging—they can be prevented.

You can take action to prevent falling and stay independent longer.

Speak up.

- Tell your doctor if you have fallen, if you feel unsteady when standing or walking, or if you are afraid you might fall.
- Ask your doctor or pharmacist to review the medicines you take. Some medicines might make you dizzy or sleepy which can increase your risk of falling.
- Have an eye doctor check your eyes at least once a year and update your eyeglasses as needed.
- Have your doctor check your feet at least once a year and discuss proper footwear to reduce your risk of falling.
- Ask your doctor about health conditions like depression, osteoporosis, or hypotension that can increase your risk for falling.

Stay active.

- Do exercises that make your legs stronger and improve your balance, like Tai Chi.

Make your home safer.

- Get rid of trip hazards like throw rugs, and keep floors clutter free.
- Brighten your home with extra lighting or brighter light bulbs.
- Install grab bars in the bathroom(s)—next to the toilet and inside and outside of your bathtub or shower.
- Install handrails on both sides of staircases.

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