What is driving inflation?

James M. Reed, CFP®, President

Inflation

Inflation can be defined as a measure of the rate of rising prices caused by too much money chasing too few goods or services.[1] Over the last 20+ years, prices have risen between 1.5% to 2.5% annually.[2] Over the last 12 months, the inflation rate has been 7.5%,[2] what has changed?

The primary cause has been the COVID pandemic which created large imbalances between consumer demands and companies' ability to deliver desired goods and services. I have tried to outline below some of the salient reasons for the higher inflation, some challenges/changes that it has caused and what we expect going forward.

Sources of Extra Money

Going into the pandemic, consumers (as a whole), were in good financial shape, as much of the excess credit card debt and home equity lines of credit had been significantly reduced over the last couple of years. With the COVID shutdown, much normal spending for travel, vacations, eating out, clothes, or commuting to work, slowed or stopped. Simultaneously, to offset the COVID impacts, the government printing presses issued stimulus checks to nearly everyone to help with the hardship created.

Despite the pandemic, most people continued to work and get paid, so because there was nowhere to go or spend, much of that money went into savings. Best estimates are that consumers have saved to $2 to $4 trillion[3] more than normal over the last two years.

Pent-up Demand

The COVID restrictions (over the last two years) has created a massive pent-up demand to go, do things, travel, or simply "get back to normal." As restrictions have been gradually lifted, consumers "with extra bucks in the bank" are buying, and going and doing things, seemingly <u>regardless of the price,</u> thus, the cost of much higher rate of inflation.

COVID Impact on Work/Life Balance

The effect of staying and working from home for nearly 2 years, has also contributed to price increases. Initially, demand for computer equipment to work from home, educate our kids, work out, and entertainment, contributed to a shortage of computer chips. Those shortages have resulted in significantly higher prices in several products, like cars (with new cars up 12%) and in used cars up 40% from last year, due to lack of availability.[2] Working from home created increased demand for furniture, appliances, and clothes. Concerns about COVID, also contributed to many relocating from highly congested areas to more remote areas, within their state or even to other states. This has contributed to higher home prices and rents, all contributing to the high inflation.

Labor Shortages/Supply Bottlenecks

COVID has contributed to about 2.875 million less people working today than pre-pandemic.[4] There are several reasons, boomers finally retiring, fear of getting COVID, childcare and one spouse working but making more. With about 10 million job openings, this big mismatch combined with increased demand for goods has caused bottlenecks or delays in getting desired goods. To try to meet

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What is driving inflation? *(continued)*

demand, companies have offered substantially higher wage rates to attract or to retain workers. This has resulted in much higher wages, particularly for the bottom one third of the workforce. These higher costs are being passed through higher prices nearly everywhere.

Businesses have adapted to the high demand for goods and services, with reduced labor by reducing product offerings and only offering the most profitable items. Restaurants, for example, may have reduced menu choices from 30 items to only 15 of the most popular. A business that offers 100 items, may only produce the most profitable 40 regularly, another 20 weekly and others only monthly or quarterly, as demand for profitability dictate. Regardless, prices are being pushed higher due to the limited resources. Thus, higher inflation.

Inflation Will Likely Slow Down

In our opinion, the rate of inflation will likely slow from the current 7.5%[2] to around 2.5% to 3.5% by year-end. Following are some of the reasons:

- Chip Shortage - Companies are investing billions in new chipmaking factories, mostly in the U.S. These should start producing in the second half of 2022, making more products available.
- Various Goods - As the backlog has worked off, the demand should moderate, thus slowing price increases.
- Labor Cost - Wages for the bottom 1/3 of the workforce have seen rates jump from $10 - $12 per hour to $15 - $18 per hour over the last 24 months and are being passed through in price increases to the consumer.[6] Rates will likely be higher next year, but not at this rate of increase.
- Energy - Over the last two years, oil prices have jumped from around $50 per barrel to $92 per barrel[7] and the gas pump and prices have gone from about $2.50 per gallon to $3.50 per gallon.[8] Oil prices will not likely rise another $45 this year, so some help at the pump is coming.

The price levels that we are currently experiencing in goods and services is likely to remain the same, but the continued rapid increases are not likely to continue. The "slow down" in price increases will vary by products and services, but in our opinion, should start to trend down over the next few months. ■

The IRS Tax Deadline is Monday, April 18th

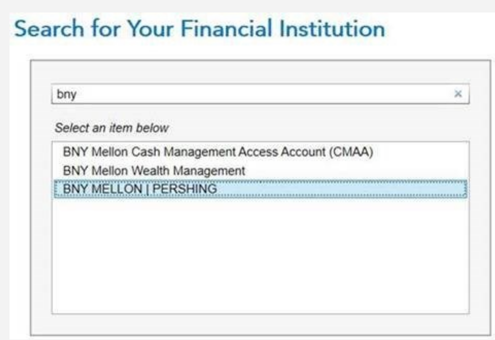
As a general rule, you have until tax day to make IRA contributions for the prior year. In 2022, that means you can contribute toward your 2021 tax year limit of $6,000 until April 15th. And as of January 1, 2022, you can also make contributions toward your 2022 tax year limit until tax day in 2023.

We encourage you to not wait until the last minute to make sure everything gets completed timely as sometimes the mail takes time. We can also assist you with doing contributions via electronic funds transfer (ETF) or depositing checks using Pershing's mobile app. Please call us if you have any questions.

IMPORTING PERSHING ACCOUNTS INTO TURBO TAX

Please be aware that if you are importing tax information into TurboTax, when you are prompted to 'Search For Your Financial Institution' you will want to type 'BNY'. Then you can pick the bottom choice highlighted below.

(BNY MELLON | PERSHING):



Getting Back to Travel

Evan Watson, Investment Analyst

After this recent snowstorm, I am more than ready to get back to traveling. Over the last four years, my wife and I have traveled to five different countries and four different states while revisiting a few of our favorites. Through these adventures, I have gained some experiences that could be helpful to travelers of any level. As we look to get back to traveling, I hope to help you all enjoy your experiences while also saving a couple bucks.

Planning:

Planning is the most important part of the vacation. This doesn't mean that you need to have an itinerary for every minute of the day. However, you might want to plan for transportation, restaurants you want to visit, and sights to see.

- Do research! Usually, each city has a visitors guide that provides you information on the main sights, upcoming calendar events, and other areas of interest. In addition, there are independent resources available that have written travel books or created videos that can give you more detailed information on the city and its surroundings. This can be invaluable when determining where you would like to stay or how reliable public transportation can be.

- Map out your trip. If you plan to do a lot of sightseeing, you are going to want to map out your trip. This will help you plan your days and minimize other expenses like transportation. Additionally, you can make a better decision on where you are staying. Knowing how close your hotel is to public transportation, like train or bus stations, can make your mornings less hectic.

- One of the best things we have found, especially when visiting international cities is looking for sightseeing packages. Some cities will group some of the major sights into a package that is generally cheaper than paying for these tours on their own. This can also help save a couple bucks and maybe encourage you to visit something you might not have seen.

Making Reservations:

- Once you have decided on the location for your trip, you now have the tough decision of where you want to stay. There are many different types of accommodations now as popular apps like VRBO and Airbnb have popped up. Additionally, aggregation sites like Expedia or Hotels.com have made it easy to view multiple hotels at once. Assuming you don't have a loyalty membership to a specific hotel group, use all these sites to your advantage. This can allow you to find the best place to stay based on your location and your needs. I have personally used all these sites both domestically and internationally with success.

- I personally believe that every trip should have at least one extended meal. You are on vacation and in a place that you may never be back to again. Imbibing in the local cuisine can give you an insight into more of the culture in each city. Some of the independent resources above will give you recommendations for specific restaurants, especially some of the most popular. If you are really looking forward to a certain restaurant, make a reservation so you don't miss out. Start out by going to the restaurant directly, but other sites like Open Table can help set reservations as well.

There are plenty of other tips that some of these resources will help with. While this can seem like a lot of work, this can also increase the anticipation of travel. Enjoying the process extends the magic of a vacation. My biggest tip is to make a memory out of every moment. Whether you record, take pictures, or just mentally log it, enjoy every moment

Required Minimum Distribution (RMD)

By Colleen M. Cleary, CPA/PFS, CFP®

The IRS is making Required Minimum Distributions (RMDs) Smaller in 2022

Once you hit a certain age, you'll need to withdraw money from some of your retirement accounts each year. But in 2022, the amount you must take out may be changing more than in other years and if you don't need the money, that could be good news for you.

RMD Background

The Internal Revenue Service (IRS) lets you put money into retirement accounts (such as an IRA, 401K, 403b, etc.) and defer taxes on your contribution and any investment gains all through your career. However, this situation doesn't last forever and eventually everyone has to pay the piper, Uncle Sam. This is when you have to take out minimum amounts annually, known as required minimum distributions, or RMDs, from your account once you reach the age of 72.

Each year, your RMDs are determined by your age and account balances. The exact distribution amount changes from year to year and is based on your life expectancy. It is calculated by dividing an account's year-end value by the estimated remaining years of your lifetime, in a table provided by the IRS.

This Life Expectancy table has not changed since 2012. However, effective January 1, 2022 the actuarial table was updated to reflect the assumption that people **are living longer** and longer life expectancies mean longer distribution periods. For this reason, you need to take a smaller percentage of your retirement assets. Your distribution period gets shorter every year, based on your age. For example, if you take your first RMD in 2022 at age 72, your distribution period is 27.4 years (vs. 25.6 years, based on the old table). When you turn 80 it will be 20.2 years (vs. 18.7 years using the old table).

How can this affect you? Potentially Lower Taxes - This could lead to potentially lower taxes. RMDs are considered ordinary income and are taxed at your personal income tax rate. The lower the distribution from your retirement account, the lower your tax bill may be.

Retirement accounts may last longer

Since you have a longer life expectancy and the amount you need to take is smaller, your retirement accounts will likely last longer.

In Summary

Even if you started taking RMDs prior to 2022, starting this year your future RMDs will be calculated using the updated schedule, and your RMDs will be lower than they would have been in the past.

If you don't need your RMD to support your living expenses, this will be welcome news as lower RMDs could reduce your taxable income while keeping more of your retirement money growing over time.

Another option if you do not need the funds and are charitably inclined is that you may fulfill your annual RMD requirement (or a portion of it) without having to pay taxes on them by making a qualified charitable distribution (QCD) of the RMD (or a portion of it) directly from your IRA custodian to a qualified public charity. We can even set you up with a checkbook tied to your IRA to make this as easy as possible for you. Give us a call today if you would like to discuss RMDs further. ■

Record Retention

By Colleen M. Cleary, CPA/PFS, CFP®

Even though we live in a digital world, there are times when original documents are required. To keep the volume of your paper and digital records under control, this article provides suggestions for record retention.

Tax returns and support documentation:

The general rule of thumb is to retain your tax records for the "statute of limitations" for the tax year. This is the length of time that you can file an amended return, claim a credit or refund or that the taxing authority can assess additional tax or perform an audit. The record retention recommendations below apply to all supporting documentation used to prepare your return, and will include income, expense, investment, and any real estate information used to prepare the return. For federal returns, the general rule of thumb is to retain all records for three years after the due date for the original return, but there are several exceptions outlined in the following retention summary from the irs.gov website:

1. Keep records for 2 years if situations (4), (5), and (6) below do not apply to you.
2. Keep records for 3 years from the date you file your original return or 2 years from the date you paid the tax, whichever is later, if you file a claim for credit or refund after you file your return.
3. Keep records for 7 years if you file a claim for a loss from worthless securities or bad debt deduction.
4. Keep records for 6 years if you do not report income that you should report, and it is more than 25% of the gross income shown on your return.
5. Keep records indefinitely if you do not file a return.
6. Keep employment tax records for at least 4 years after the date that the tax becomes due or is paid, whichever is later.

Please consult How long should I keep records? | Internal Revenue Service (irs.gov) for more details.

Because most individuals also file a state return, please consult your state taxation website to see if the state period of limitations differs from that of the federal government. For Ohio return filers, the period of limitation is four years from the later of the filing due date or the date a return was filed.

W-2s should be used to annually verify your wages to your Social Security account. In fact, many experts recommend retaining your W-2s until you begin collecting Social Security.

Keep these items forever:

- Birth certificates, adoption papers, death certificates
- Marriage certificates, prenuptial agreements, divorce decrees and separation agreements
- Estate documents, including wills, trust documents, Powers of Attorney, Health Care Powers and Directives. Also consider giving a copy to people who play a vital role in your estate plan, such as agents, executors, and trustees. Your attorney may have an original of these documents in their office safe.
- Details of current beneficiary designations
- Records of paid mortgages and other debt satisfaction items
- Military discharge paperwork
- Social Security cards
- Copies of gift tax and estate tax returns, and details of any inheritances received

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<u>Items for special safekeeping - assets that you own, and liabilities you owe</u> – Keep for as long as you own the asset or owe the liability:

- Real Estate property deeds and mortgage documents (for home ownership/sale, keep documents for seven years after sale or indefinitely)
- Other asset ownership records such as settlement statements, bills of sale, automobile, and boat titles
- Credit card and other debt terms (after payoff, retain documentation confirming that the debt has been paid in full)
- Current insurance policies (copies for your reference – your agent will have details on file)
- Documentation for substantial improvements to real property, including your personal residence, to determine asset basis for future sale (keep documents, including cancelled checks AND invoices for seven years after sale or indefinitely)
- Records for insurance claims (for as long as the claim is open)
- If you own any investments purchased prior to 2012, retain all cost basis information in the event of a future sale, as your custodian may not report the cost basis on a 1099.

<u>Healthcare documents and receipts:</u>

- If used to claim a medical expense deduction on a tax return, store with your tax return documentation.
- If you have a health savings account (HSA) and paid medical expenses outside of your HSA funds, keep receipts for as long as you can request a reimbursement from the account. If you plan to request reimbursement from the account later or in retirement, keep unclaimed receipts from the date the HSA account was opened.
- If on Medicare, keep "Summary Notices" for at least a year or until the bill is paid in full.
- If on Medicare and are enrolled in an employer drug plan, keep your "Notice of Creditable Coverage" for enrollment in Part D later.
- Medicaid has a five-year look back provision, so if you think you may apply in the future, keep all financial records for the past five years to support your application.

<u>Retirement accounts:</u>

- Keep documentation of contributions and withdrawals.
- If you made a Roth conversion, keep records showing the conversion details.
- If you made non-deductible traditional IRA contributions, keep Form 8606 until the account is fully depleted to accurately track your cost basis.

<u>Other important records to safeguard:</u>

- Passport and driver's license
- Stock and bond certificates
- College transcripts and other higher education records, such as certification details
- Employment contracts

Concern should always be given to the risk of physical peril to your important documents, such as from fire and water damage, destruction, as well as theft protection. Physical documents are typically stored in a secure place at home such as a safe or firebox, or in a safety deposit box at a bank or financial institution. Please note that some items should never be stored in a safety deposit box, such as Power of Attorney forms, Health Care Powers of Attorney and Directives and your Will, as executors and those with powers of attorney privileges may not be able to access your safe deposit box in the case of an emergency or your death.

If you will be safeguarding the original copy of any of the documents outlined above in an offsite safety deposit box, consider making a photocopy or pdf of the document to keep at home for easy reference. It is helpful to keep these

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copies filed in specific folders that tell you where the original is stored. For example, create a "Safety Deposit Box" file on your computer to store pdf copies of all information maintained in your safety deposit box. If you do not need complete copies of documents at home, at the very least keep a listing of what documents are stored in the box and indicate the location of the box and key. To make your personal records easier to maintain, store your vital records and financial information in separate files from other personal items such as photos and articles of personal interest.

For digital storage, consider external hard drives and cloud-based storage solutions. Make a backup copy of all computerized records and safely store the backup to secure against loss such as a hard drive failure. Some cloud-based storage providers allow you to designate a Trusted Contact to access your information in the event of your incapacity or death.

Create a personal document management and retention plan

Tame the paper and save space at home and on your digital devices by annually reviewing your retained information to determine items that can be discarded by shredding or other secure means of disposal. To help with this annual process, set up your files by year so that it is easier for you to clean out items that no longer need to be retained. For a quick way to free up space and gain momentum on this task, purge expired warranty information, old insurance policies and manuals for items you no longer own.

If you have any specific questions on document retention or would like to receive a simplified records retention checklist, please contact our office. ■

[1] Views and opinions expressed are those of Reed Financial Services, Inc. (“RFS”). All views and opinions are as of the date of this publication and are subject to change without notice. You should understand that past performance is not indicative of future results; and diversification does not assure a profit or protect against loss in declining markets.

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[2] Information regarding the performance of the average historical inflation, current inflation over the last year, and components of this inflation were obtained from Bureau of Labor Statistics, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness. https://www.bls.gov/news.release/pdf/cpi.pdf https://fred.stlouisfed.org/series/CPIAUCSL

[3] Information regarding the consumer savings and wages comes from the Bureau of Economic Analysis, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness. https://www.bea.gov/sites/default/files/2022-02/pi0122.pdf

[4] Information regarding the number of people out of the labor force came from the Bureau of Labor Statistics, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness. https://fred.stlouisfed.org/series/PAYEMS

[5] Information regarding the job openings came from the Bureau of Labor Statistics, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness. https://fred.stlouisfed.org/series/JTSJOL

[6] Information regarding the consumer savings and wages comes from the Bureau of Economic Analysis, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness. https://www.bea.gov/sites/default/files/2022-02/pi0122.pdf

[7] Information regarding the WTI crude oil comes from the Trading Economics, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness. https://tradingeconomics.com/commodity/crude-oil

[8] Information regarding the gas prices, comes from Bureau of Labor Statistics, a source believed to be generally reliable. However, RFS has not independently verified such information, and makes no representation of its completeness. https://fred.stlouisfed.org/series/APU000074714