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Resolute Connections

The Social Security Administration announced that Social Security benefit checks will be 5.9% higher in 2022 than they were this year - get the details in *Inflated COLA*. Those courageous congressmen and congresswomen who work for us in Washington have kicked the decision whether to raise the debt ceiling down the road, to December. *What if We Don't Raise the Debt Ceiling* reviews what is the most likely outcome for investors if December comes and those brave lads and lassies can't come to agreement.

New IRA Restrictions and Mandatory Distributions describes the new rules that may come into effect if the $3.5T spending spree is passed in DC. These new rules are targeted at only a select few, but ask yourself, when has that ever happened? Since we are in October, we thought *The Facts About Pumpkins* would be a light read about our favorite fall fruit – yes, a pumpkin is a fruit.

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Inflated COLA

Reports from the Federal Reserve, which sets interest rate policy in the U.S., have famously told us that the current inflation we're experiencing is "transitory," despite a lot of data that might seem contradictory. (Has anybody seen gas prices lately? Has anybody tried to buy a house in this market?) The current labor shortage is leading to higher wages, which usually find their way into the prices of goods and services, and the government has been printing money (mainly by issuing bonds and extending credit) at rates never seen before.

Add to this a new data point, one that will be welcome to many retirees. The Social Security Administration, which relies on annual inflation data to set its cost of living (COLA) increases, has just announced that Social Security benefit checks will be 5.9% higher in 2022 than they were this year. This is the largest annual increase since 1982, when inflation was still rampant from the "stagflation" economic era. To put that into perspective, Social Security's COLA increase has averaged 1.65% over the past decade.

The average retiree received $1,565 in monthly Social Security benefits this year, and that will go up $92 a month, to $1,657. The retiree advocacy group AARP tells us that this will be nearly all the income received by 25% of seniors in America, and many more rely on these checks to pay for a large part of their retirement expenses.

What if We Don't Raise the Debt Ceiling?

The news media, in its coverage of the Congressional debate over raising the debt ceiling, has alarmed its readers and viewers with terms like "government default" and "global financial crisis." But if there is a government shutdown looming in our future, what is the most likely outcome for investors?

First, there is no question that the government debt levels are remarkably high based on historical norms. The government owes roughly $29 trillion U.S. dollars, around $1.7 trillion more than at this time last year. Raw numbers aren't a perfect way to compare current vs. past debt levels, since the U.S. economy (and, therefore, tax revenues) has grown dramatically. But if we measure government debt as a percentage of the U.S. Gross Domestic Product (GDP) the current numbers are still somewhat alarming. The long-time record debt was 119% of U.S. GDP in 1946, at a time when the government had revved up the printing presses and issued bonds to pay for the costs of World War II. (Total debt that year was $269 billion.) For most of the 1960s and 1970s, the debt-to-GDP ratio dropped back into the low 30s, before creeping up again, reaching 50% in 1988 and never looking back.

Debt-to-GDP eventually breached the 100% level in 2014, but the biggest jump came in 2020, when the debt-to-GDP figure rose from 107% to roughly 130% of GDP in the span of 12 months. Bottom line - today's debt levels are in record territory.

It's interesting to note that the largest owner of U.S. Treasury securities is not any foreign country, but the Social Security Trust Fund ($2.9 trillion,) followed by the nation of Japan ($1.28 trillion,) the nation of China and the U.S. Military Retirement Fund ($1 trillion each) and the Office of Personnel Management & Retirement ($955 billion.) Mutual funds and private investors are holding about $3.8 trillion collectively.

There are several reasons to wonder whether the current debt is as alarming as the numbers look in isolation. First, interest rates are so low that the government isn't paying much for the privilege of borrowing investors' dollars. And is it so terrible that the government is making secure bond investments available to the public (and its in-house agencies?)

But what if we DO have a government shutdown in December? What would be the consequences?

One would be the suspension of Social Security checks—which might not be the ideal political message for U.S. Senators and Representatives to send to their retired voters. Nonessential government agencies would be shut down, including the National Parks and the economists who collect government statistics. Government employees would be furloughed.

But if we look at past shutdowns, they are all temporary blips, soon forgotten. The debt fiascos of 2011, 2013 and 2018 were all resolved and everybody was made whole; there is not going to be a permanent wholesale default on government obligations this time around either. And most meaningfully, none of the past exercises in brinksmanship impacted long-term equity returns; indeed, the S&P 500 rose during the 2018 shutdown.

So, the biggest danger is short-term, that the alarming media coverage might spook timers and traders, who could go on a short-term selling rampage before realizing that the government taking a week or two off didn't really depress the actual underlying value of U.S. companies. And, of course, an actual shutdown is unlikely in the first place. The game Congress is playing is looking like a terrific example of much ado about nothing.

New IRA Restrictions and Mandatory Distributions

When reports surfaced that PayPal founder and billionaire Peter Thiel had invested his Roth IRA in private equity and private stock in his own company, and managed to turn an account worth less than $2,000 in 1999 into a $5 billion nest egg free from taxes, it caught the attention of Congress. Thiel will never have to pay the government a penny in taxes on his investment windfall.

Thiel may be the most widely-publicized example of someone who took full advantage of the Roth rules, but he isn't the only one. Hedge fund manager Robert Mercer reportedly has $31.5 million in his Roth IRA, and Warren Buffett, one of the richest men in the world, has $20.2 million socked away in his tax-free retirement account. One of Buffett's Berkshire Hathaway executives has been even more aggressive; he has a Roth valued at $264.4 million, and Alden Global Capital hedge fund manager Randall Smith owns a Roth valued at $252.6 million.

In the tax package that recently passed the House Ways & Means Committee, it was pointedly noted that Thiel and others were able to basically put their own companies into the Roth, creating a tax-free corporation that was never envisioned under U.S. tax law.

That will no longer be possible if the House bill becomes law. It specifies that, going forward, IRA and Roth accounts will only be allowed to hold publicly-traded securities, and it specifically prohibits these accounts from owning private equity, hedge funds and other investments that are only available to certain wealthy insiders. Current owners would be required to sell these exotic holdings within two years, and use the proceeds to buy a public, SEC-registered investment. (If they comply within this time period, there will be no tax penalties.)

The bill would go a long step further, and requires people who are lucky enough to have more than $10 million in a traditional or Roth IRA from making any further contributions, and imposes new Required Minimum Distributions (RMD's) on those accounts. Anyone with more than $400,000 in taxable income and over $10 million in a traditional or Roth IRA at year's end would be required to withdraw at least half of the excess the following year. The goal appears to be to create a cap of $10 million on all retirement accounts that escape annual taxation going forward, and to eliminate the tax-free corporation from the U.S. economic landscape.

The Facts About Pumpkins

The runup to Halloween is pumpkin season, the season of jack-o'-lanterns, pumpkin pie and pumpkin spice lattes (for those who are into that sort of thing.) But did you know that pumpkins are native to the New World, and were completely unknown outside the Americas until the late 1500s? Or that pumpkins are actually a fruit, related to winter squash, cucumbers and melons?

Pumpkins are unusual in other ways. The skin, leaves, flowers, pulp, seeds and stem are all edible; you can eat not just the entire pumpkin, but the entire plant that produces it. And they're low-calorie; pumpkins are 90% water. They contain more fiber, pound per pound, than kale, more potassium than bananas, and are full of heart-healthy nutrients like magnesium and iron. Pumpkin pies are America's second most-favorite pie, behind apple pies.

And pumpkins are an unusually productive agricultural crop. Illinois pumpkin farms produce about 40,000 pounds per acre, while California and Texas can coax yields of 30,000 pounds per acre.

Over 1.5 billion pounds of pumpkin are harvested in the United States each year, almost all in the month of October, and a single U.S. state (Illinois) produces more than half of the total. And we know what you're waiting to ask - the heaviest pumpkin ever grown was harvested in Germany, all 2,624.6 pounds of it.

Source:
Bob Veres Inside Edition Newsletter

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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