

# Financial Stewardship

Helping You Make Wise Financial Choices



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**AFG**Financial

I am still looking to hire a Full-time Administrative Assistant / Paraplanner, if you know someone who is super detail-oriented, trustworthy and likes completing forms online using multiple sources, and is fun to work with, please let me know. The compensation includes a health sharing benefit in addition to 401(k) matching and flexible hours. \$100 gift card of your choice if you connect me to my new hire and we continue beyond the 90 day trial period.

October 1, 2021, you can submit your FAFSA for the 2022-2023 school year.

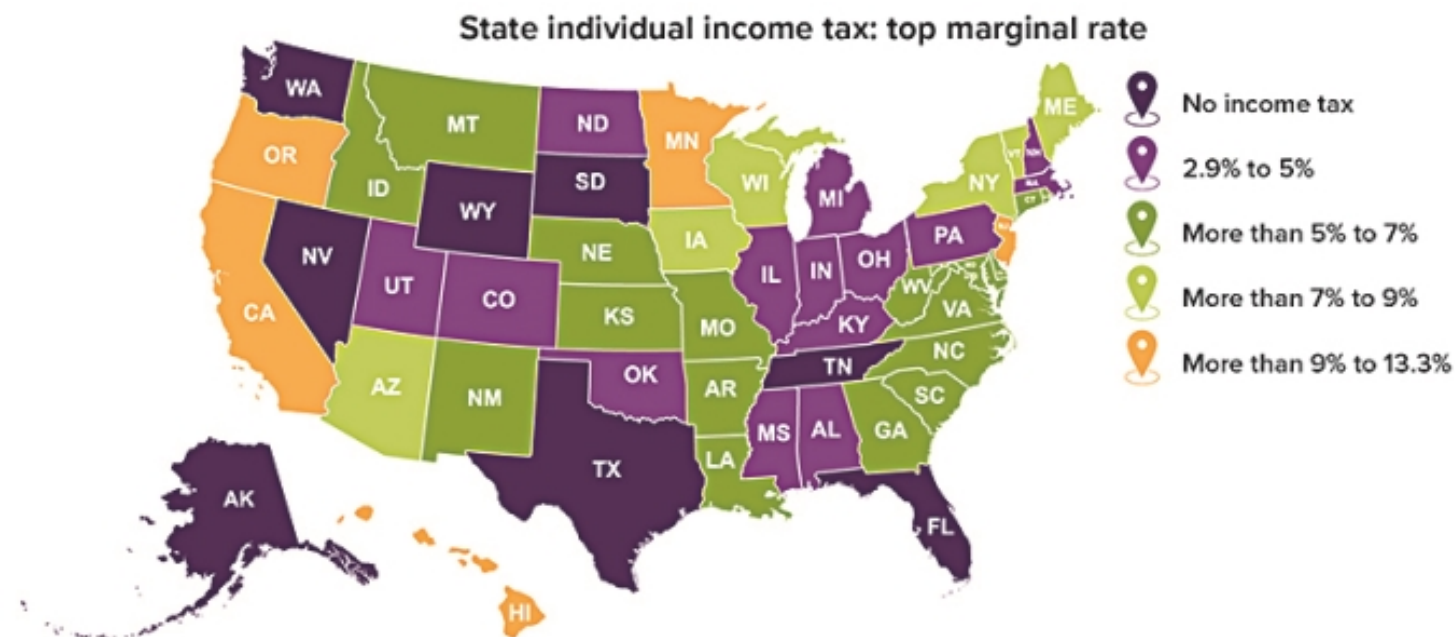
Grayson's golf team will be playing a tournament in Hawaii in October. I've never been to Hawaii before and am looking forward to watching them play.

I enjoy being a resource and helping you. If your family or friends could benefit and be guided like you, please introduce us or share this newsletter with them.

If you would like prayer, please share your request with me.

## State Income Tax: Depends on Where You Live or Work

Eight states have no state income tax. Of the 42 states with a state income tax (and the District of Columbia), the top marginal income tax rate ranges from 2.9% to 13.3%. Most states (and D.C.) with an income tax have multiple tax brackets with graduated rates; nine states have only a single tax rate.



Source: Tax Foundation, *Fiscal Fact No. 750*, February 2021

# Is a High-Deductible Health Plan Right for You?

In 2020, 31% of U.S. workers with employer-sponsored health insurance had a high-deductible health plan (HDHP), up from 24% in 2015.<sup>1</sup> These plans are also available outside the workplace through private insurers and the Health Insurance Marketplace.

Although HDHP participation has grown rapidly, the most common plan — covering almost half of U.S. workers — is a traditional preferred provider organization (PPO).<sup>2</sup> If you are thinking about enrolling in an HDHP or already enrolled in one, here are some factors to consider when comparing an HDHP to a PPO.

## Up-Front Savings

The average annual employee premium for HDHP family coverage in 2020 was \$4,852 versus \$6,017 for a PPO, a savings of \$1,165 per year.<sup>3</sup> In addition, many employers contribute to a health savings account (HSA) for the employee, and contributions by the employer or the employee are tax advantaged (see below). Taken together, these features could add up to substantial savings that can be used to pay for current and future medical expenses.

## Pay As You Go

In return for lower premiums, you pay more out of pocket for medical services with an HDHP until you reach the annual deductible.

**Deductible.** An HDHP has a higher deductible than a PPO, but PPO deductibles have been rising, so consider the *difference* between plan deductibles and whether the deductible is per person or per family. PPOs may have a separate deductible (or no deductible) for prescription drugs, but the HDHP deductible will apply to all covered medical spending.

**Copays.** PPOs typically have copays that allow you to obtain certain services and prescription drugs with a defined payment before meeting your deductible. With an HDHP, you pay out of pocket until you meet your deductible, but costs may be reduced through the insurer's negotiated rate. Consider the difference between the copay and the negotiated rate for a typical service such as a doctor visit. Certain types of preventive care and preventive medicines may be provided at no cost under both types of plans.

**Maximums.** Most health insurance plans have annual and lifetime out-of-pocket maximums above which the insurer pays all medical expenses. HDHP maximums may be the same or similar to that of PPO plans. (Some PPO plans have a separate annual maximum for prescription drugs.) If you have high medical costs that exceed the annual maximum, your total out-of-pocket costs for that year would typically be lower for an HDHP with the savings on premiums.

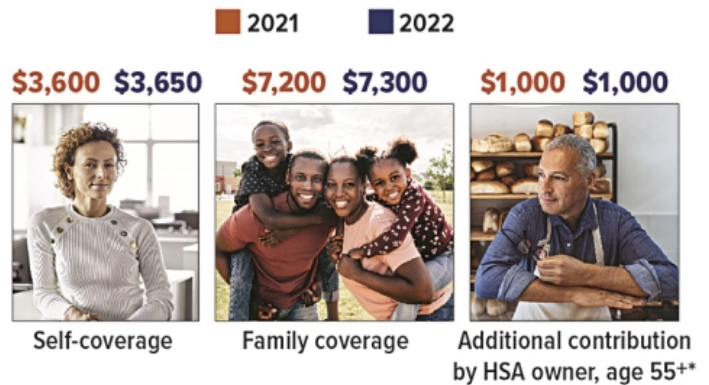
## Your Choices and Preferences

Both PPOs and HDHPs offer incentives to use health-care providers within a network, and the network may be exactly the same if the plans are offered by the same insurance company. Make sure your preferred doctors are included in the network before enrolling.

Also consider whether you are comfortable using the HDHP structure. Although it may save money over the course of a year, you might be hesitant to obtain appropriate care because of the higher out-of-pocket expense at the time of service.

## HSA Contribution Limits

Annual contributions can be made up to the April tax filing deadline of the following year. Any employer contributions must be considered as part of the annual limit.



## Health Savings Accounts

High-deductible health plans are designed to be paired with a tax-advantaged health savings account (HSA) that can be used to pay medical expenses incurred after the HSA is established. HSA contributions are typically made through pre-tax payroll deductions, but in most cases they can also be made as tax-deductible contributions directly to the HSA provider. HSA funds, including any earnings if the account has an investment option, can be withdrawn free of federal income tax and penalties as long as the money is spent on qualified health-care expenses. (Some states do not follow federal tax rules on HSAs.)

The assets in an HSA can be retained in the account or rolled over to a new HSA if you change employers or retire. Unspent HSA balances can be used to pay future medical expenses whether you are enrolled in an HDHP or not; however, you must be enrolled in an HDHP to establish and contribute to an HSA.

1–3) Kaiser Family Foundation, 2020

# 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>

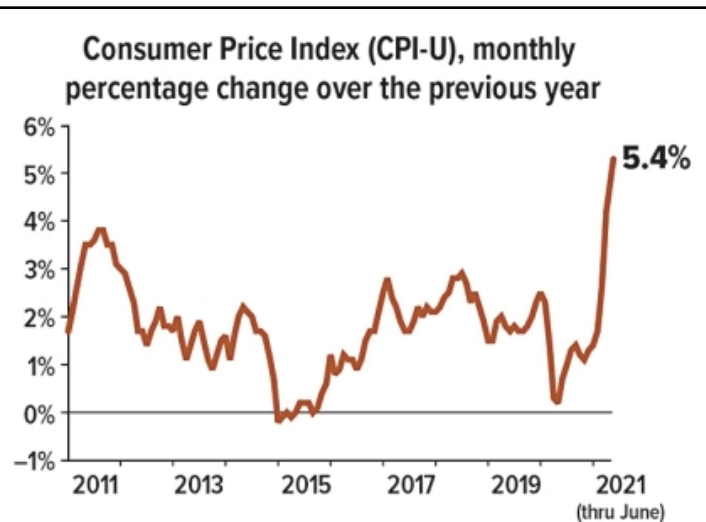
## Monitoring Inflation

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.



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

# Net Price Calculators Help Gauge College Affordability

Fall is the time when many high school seniors narrow their college lists and start applying to colleges. One question that is often front and center on the minds of families is "how much will it cost?" To help answer that question, you can use a net price calculator, which is available on every college website.

**How a net price calculator works.** A net price calculator can help families measure a specific college's true cost by providing an estimate of how much grant aid a student might expect based on his or her financial information and academic profile. A college's sticker price minus grant aid equals a student's net price, or out-of-pocket cost.

The numbers quoted by a college net price calculator are not a *guarantee* of grant aid, but the estimates are meant to be close. By completing a net price calculator for several colleges before officially submitting an application, students can get an idea of what their out-of-pocket cost would be at specific schools and rank colleges based on affordability.

**What information it asks for.** A net price calculator typically asks for the following information: parent income and assets, student income and assets, a student's general academic record, and family size, including number of dependents. A net price calculator might also ask more detailed questions; for example, a student's class rank and test scores, the amount parents contributed to their employer retirement plans

in the last year, current home equity, or how much parents expect to pay in health-care costs in the coming year. Every college has its own net price calculator, so there may be slight variations in the questions that are asked.

A net price calculator takes about 10 to 15 minutes to complete. Typing "net price calculator" in the search bar of a college's website should direct you to it.

**Results can vary.** Keep in mind that colleges have different sticker prices and criteria for determining how much grant aid they offer, so calculator results can vary, even when the same financial information is being entered. For example, after entering identical financial information on three different calculators, families might find that College A has a net price of \$25,000 per year, College B a net price of \$30,000, and College C a net price of \$40,000. Running a net price calculator for colleges that are similar in terms of selectivity and sticker price can help families compare the generosity of colleges in a similar peer group.

**Consider filing the FAFSA.** The FAFSA for the 2022-2023 school year opens on October 1, 2021. Families should consider submitting it even if they don't expect their child to qualify for need-based federal aid, because some colleges may require the FAFSA as a prerequisite for college-provided need-based and/or merit-based grants and scholarships.

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## [Schedule an appointment](#)

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