NEWSLETTER FIRST QUARTER

spectrum
FINANCIAL PARTNERS

2021 IT'S MORE THAN THE MATH. IT'S YOUR PATH.

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This First Quarter Newsletter Covers:

- Medicare Surcharge (IRMAA)
- The national debt impact on your plan
- Again – the market is not the economy
- New at Spectrum

HOW MEDICARE PART B PREMIUMS WORK – THE IRMAA

Did you know that Medicare Part B premiums are income-liked? Your 2021 premium is based on your Modified Adjusted Gross Income (MAGI) in 2019. The increased premium, known as the Income-Related Monthly Adjustment Amount (IRMAA), can be significant. To give an idea of how much, the table below shows the premiums for Part B, per person, for married filing jointly. There is a similar adjustment for Part D (prescription drug coverage).

MARRIED FILING JOINTLY TAX FILING STATUS

If MAGI in 2019 (or 2018 if 2019 is not available) was:	Then the Part B Premium per person in 2021 is:
Less than $176,000	$148.50
More than $176,000 but less than or equal to $222,000	$207.90
More than $222,000 but less than or equal to $276,000	$297.00
More than $276,000 but less than or equal to $330,000	$386.10
More than $330,000 but less than $750,000	$475.20
Greater than or equal to $750,000	$504.90

Source and to look up other filing statuses and Part D premiums:
https://secure.ssa.gov/poms.nsf/lnx/0601101020

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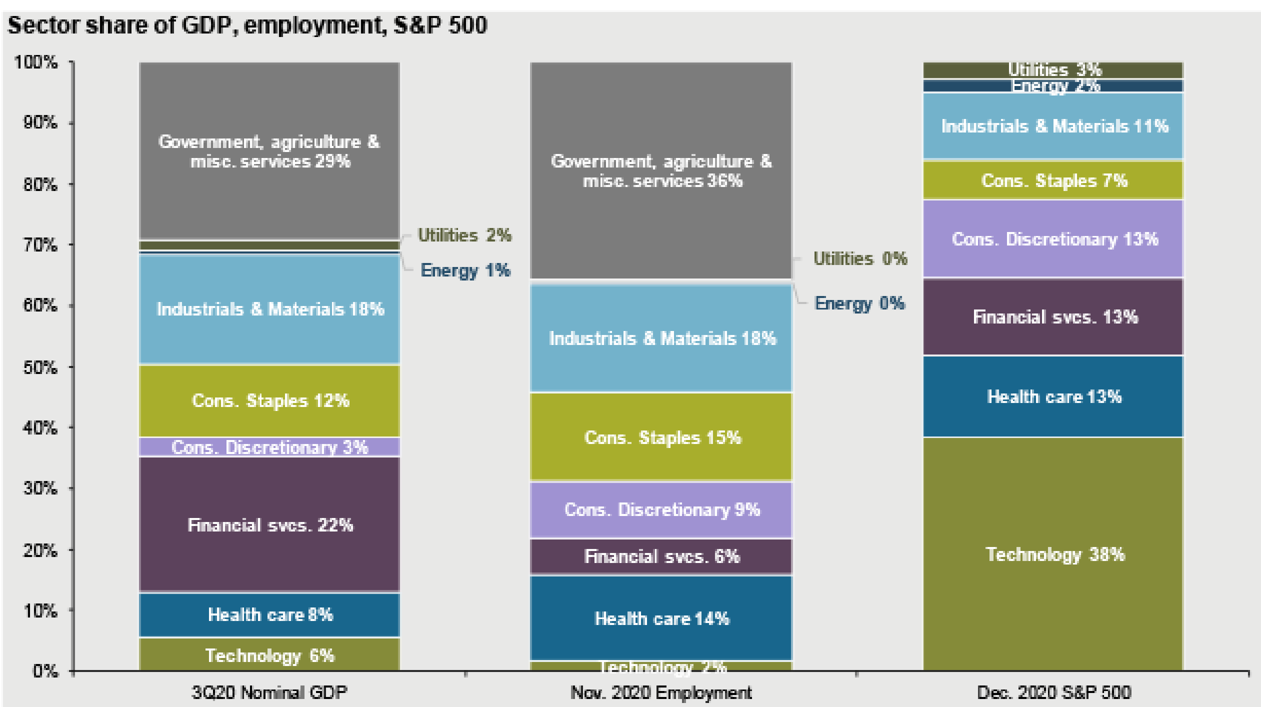
Social Security (yes, SSA not Medicare) makes the determination annually and will mail you a notice. There is a process to appeal if you believe outdated or incorrect income information was used (e.g., you filed an amended return) or for any of the following situations:

- The death of a spouse
- Marriage
- Divorce or annulment
- You or your spouse stopping work or reducing the number of hours you work
- Involuntary loss of income-producing property due to a natural disaster, disease, fraud, or other circumstances
- Loss of pension
- Receipt of settlement payment from a current or former employer due to the employer's closure or bankruptcy

If you are in the first one or two years of retirement, your two-year old MAGI probably represents a time when your household was earning a higher income. Now in retirement, your income is likely lower, and you may have cause to request a "new initial determination" (i.e., appeal the IRMAA calculation) based on your stoppage of work.
To request a new initial determination, submit a "Medicare IRMAA Life-Changing Event" form (Form SSA-44 available here: https://www.ssa.gov/forms/ssa-44-ext.pdf) or schedule an appointment with Social Security. You will need to provide documentation of either your correct income or of the life-changing event that caused your income to decrease.

STOCK MARKET ≠ ECONOMY

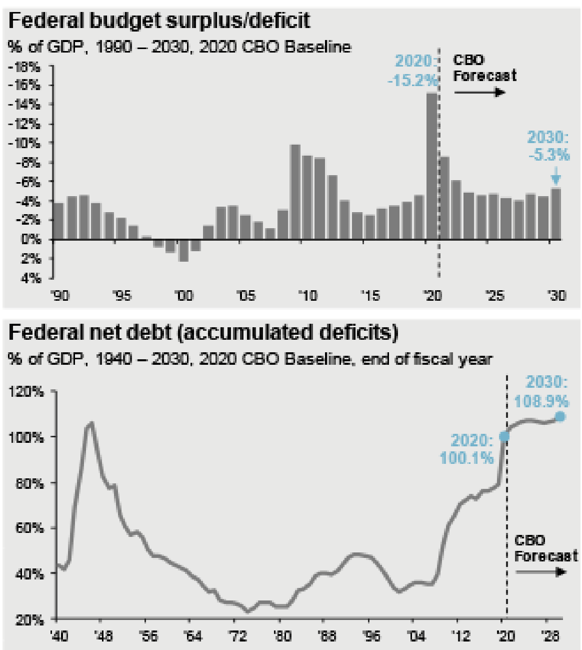
We've been talking about this conundrum for much of the last year. The graph below nicely sums up at least one aspect of the answer. The economy and the markets are literally not the same.
For example, technology makes up 38% of the S&P 500 but employs only 2% of the workforce. Tech companies whose stock prices are skyrocketing contribute very little to wages in the economy. Government spending makes up 29% of GDP and is obviously not part of the S&P 500 at all. Furloughs and cut backs in government services last year make no direct impact on the S&P 500.



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Standard & Poor's, J.P. Morgan Asset Management. Sector share of S&P 500 based on market cap weighting.

HOW WILL THE FEDERAL DEBT IMPACT MY FINANCIAL PLANNING?

In 2020, the federal debt – measured as a percent of GDP - reached levels last seen during World War II. Due to government spending in response to the Great Recession and financial crisis of 2009, tax cuts in 2017, and now pandemic-related spending, the total federal debt is now about equal to the annual economic output of the country (GDP). The budget deficit in 2020 was 15.2% of GDP. (Note: "debt" is the accumulated borrowing, "deficit" is borrowing in a single year)

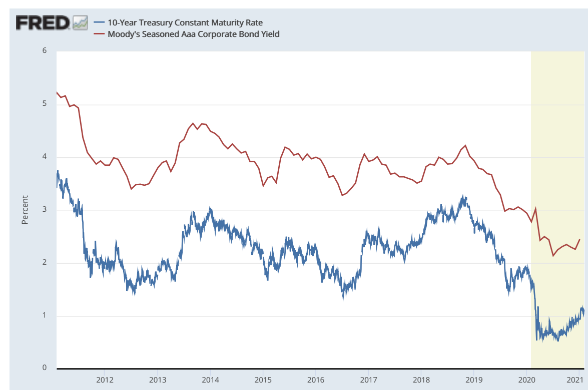


Source: CBO, J.P. Morgan Asset Management; (bottom) BEA, Treasury Department.

By the time this newsletter is distributed, this topic may have already re-entered the national conversation. We'll steer clear of the politics but offer two considerations for your financial plan.

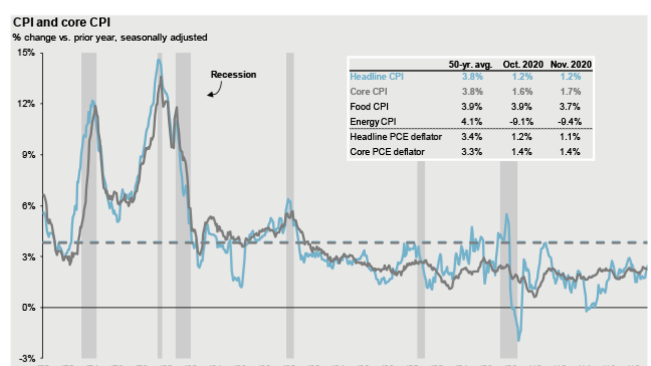
Impact #1. Will it lead to higher interest rates? It is often argued that high government debt will cause high interest rates through a process known as "crowding out": Other lenders in the economy will have to charge higher interest rates to compete with the Treasury's issuance of bonds. Theoretically this makes some sense. It just hasn't actually happened.

The chart below shows rates on the 10-year Treasury and on AAA rated (highest rated) U.S. corporate debt for the last ten-years, roughly the same period that the debt has increased so much. Interest rates have fallen over the period to the lowest on record. Not only have high deficits and debt so far failed to increase interest rates, but rates are also so low that it is historically inexpensive time to borrow: For you to re-finance your mortgage and for the Treasury to finance its debt. (Interest payments on the debt comprise 6.0% of the federal budget.) It seems unlikely that the national debt will impact your planning through interest rates anytime soon.



Source: Board of Governors, Moody's, fred.stlouisfed.org

Impact #2. Will it lead to higher inflation? It is often argued that all this debt is inflationary because of all the additional money being pumped into the economy. Maybe. But as with interest rates, inflation is running at historic lows and hasn't responded to the debt/deficit thus far.



Source: BLS, FactSet, J.P. Morgan Asset Management.

PET PEAVE

I (Matt) cringe when I hear the analogy that the federal budget needs to be balanced like a household budget. This analogy is misleading.

A. The United States Treasury issues debt on a weekly basis and people, governments, and institutions all over the world readily buy this debt. Getting a mortgage is not this easy.

B. The Federal Reserve buys a lot of this debt, which is effectively the U.S. printing money and adding it to the economy. Households can't print money that anybody else would want.

C. Unlike people, the government doesn't die so there is no end date by which the debt must be paid.

D. If it wanted, the U.S. government can raise taxes to lower the deficit / pay debt.

The 50-year average is 3.8%. Currently inflation is running at 1.2% and has only risen above 3.8% briefly since 1990. The Federal Reserve inflation target is 2.0% and it will likely require several years of higher inflation to reach even that. It seems unlikely that the national debt will impact your planning through inflation anytime soon.

HAPPENINGS AT SFP

2021 marks the third year of our referral program in which we make a $50 contribution to a charity as thanks for your referring a client to us. The three charities this year are listed below:

- Rainier Valley Food Bank (serving neighborhoods near our Seattle office)
- Outdoors for All (makes outdoor recreation possible for children and adults with disabilities)
- Washington Trails Association (supports hiking in the PNW, including trail maintenance and reports).

As before you are welcome to choose a different charity of your choice.

In the past few months, we have made investments in tax and retirement income planning software, portfolio analysis tools and a news service that will allow us to provide you with more insight into your investment, tax, and retirement income questions, and share a variety of pay-wall news and information.

We continue to follow guidance from Washington state about how to safely conduct business during the pandemic. For now that means all meetings will continue to be conducted remotely. As you know, we are able to conduct all investment business virtually, have frequent contact with each other, and on-going, strong support from Commonwealth.

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