Doerschler & Associates

Wealth Management Financial News

Jill Ingersoll, AIF, CPFA
Carl Doerschler, AIF, CPFA, CMFC
54870 N. Main Street
Mattawan, MI 49071
269-744-2004
269-744-4180

$49.00

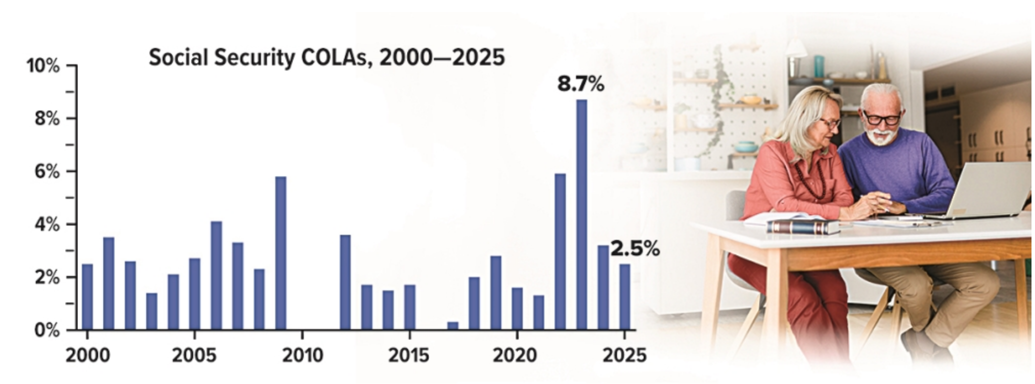
Estimated average monthly Social Security benefit increase for a retired worker in 2025. The average monthly benefit was $1,927 before the 2.5% COLA and $1,976 after the COLA.

Source: Social Security Administration, 2024

Social Security COLA Lower for 2025

The 2.5% Social Security cost-of-living adjustment (COLA) for 2025 continues the return to a more typical adjustment after high inflation resulted in big COLAs in 2022 and 2023. The COLA will take effect with December 2024 benefits payable in January 2025. The percentage is based on the Q3 to Q3 change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Despite these annual adjustments for inflation, a recent study found that the buying power of Social Security benefits declined by 20% from 2010 to 2024, in part because the CPI-W is weighted more heavily toward items purchased by younger workers than by Social Security beneficiaries.



There was no COLA in 2010, 2011, and 2016. Sources: Social Security Administration, 2024; The Senior Citizens League, July 18, 2024

Three Market-Moving Economic Indicators to Watch

Among all of the economic indicators released each month, three reports in particular can move the market: the Employment Situation, gross domestic product, and Personal Income and Outlays.

The Employment Situation

Each month, the Bureau of Labor Statistics (BLS) publishes the Employment Situation Summary report based on information from the prior month. The data for the report is derived primarily from two sources: (1) a survey of approximately 60,000 households, or about 110,000 individuals (household survey), and (2) an establishment survey of over 650,000 worksites. The information contained in each report includes the total number of employed and unemployed people, the unemployment rate, the number of people working full time or part time, average hourly and weekly earnings, and average hours worked per week.

According to the BLS, when workers are unemployed, they, their families, and the country as a whole can be negatively impacted. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for even more workers.

Investors pay particular attention to the information provided in this report. For instance, a rising unemployment rate may indicate a slowing economy. In this scenario, stock values may decline with falling corporate profits, while bond prices may rise as yields fall in response to lower interest rates. Slower wage growth may also be a sign of lower inflation and interest rates, and reduced economic productivity.

Gross domestic product

Gross domestic product (GDP) measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. GDP offers a broad measure of the nation's overall economic activity in the U.S. and serves as a gauge of the country's economic health. GDP contains a vast amount of economic information, including gross domestic income (the net of incomes earned and costs incurred in the production of GDP); gross output (the value of the goods and services produced by the nation's economy); gross domestic purchase price index (measures the value of goods and services bought by U.S. residents); personal consumption expenditures (PCE) price index (costs of consumer goods and services); and profits from current production (corporate profits).

GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a month and a year and can play a role when making financial decisions.

Other Important Economic Indicators

- **Unemployment Insurance Weekly Claims report** — provides data on new claims filed, total claims paid, and the unemployment rate
- **Consumer Price Index** — measures changes in the average price of goods and services purchased by consumers
- **Federal Reserve's monthly industrial production index** — measures monthly and annual changes in output in manufacturing, mining, and utilities

Personal Income and Outlays

The Personal Income and Outlays report measures household income, expenditures, and savings. It also includes data on consumer prices for goods and services. In particular, this report includes data on personal income, disposable (after-tax) personal income, personal consumption expenditures, personal savings, and prices for consumer goods and services as measured by the PCE price index.

In general, consumer spending, which accounts for more than two-thirds of the economy, usually influences market performance. Knowing what consumers are buying (i.e., durable goods, nondurable goods, or services) may offer insight into how various market sectors might perform. Changes in income and spending can have a direct impact on the market. Greater spending usually enhances corporate profits and stock values and vice versa. While the Consumer Price Index may be the more recognized measure of inflation, the PCE price index is the Federal Reserve's preferred measure of inflationary (or deflationary) trends. The rate of inflation and interest rates often move in the same direction because interest rates are the primary tool used by central banks (including the Federal Reserve) to manage inflation. Rising inflation usually prompts the Fed to increase interest rates, while falling inflation (and slowing economic growth) might lead to a decrease in interest rates to promote borrowing and stimulate the economy.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Indexed Annuities: Potential for Growth with Some Downside Protection

U.S. annuity sales set a new record in 2023, due to investor concern with the potential for market volatility and higher interest rates that allowed insurance companies to offer more appealing withdrawal rates. Fixed annuities dominated the market, and about one-third of those sales were for fixed indexed annuities, which can offer growth in a rising stock market while helping to provide protection when the market is falling.[1]

Of course, the fact that a product is popular doesn't mean it's right for you, but it might be worth considering. Indexed annuities are complex, so it's important to understand how they work and the options you may have if you decide to purchase an indexed annuity contract.

Minimum and indexed returns

Like all annuities, an indexed annuity is a contract with an insurance company that offers an income stream in return for one or more premium payments. Annuity payments may begin right away (immediate annuity) or at a future date (deferred annuity) and are paid over the life of the contract, which might be the owner's lifetime, the lifetimes of two people, or a specific number of years. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

An indexed annuity usually includes a guaranteed minimum interest rate over the term of the contract — contingent on holding the annuity until the end of the term — typically 1% to 3% of at least 87.5% of the premium. This is combined with a potentially higher rate based on the performance of a specified market index, such as the S&P 500. If index performance is negative, the guaranteed minimum rate will still apply. The indexed rate is calculated in one or more of the following ways.

Participation rate. Determines how much of the index gain will be credited to the annuity. For example, a participation rate of 80% means the annuity would be credited with only 80% of the gain experienced by the index.

Spread/margin/asset fee. May be assessed in addition to, or instead of, a participation rate. For example, if the index gained 10% and the spread/margin/asset fee is 2.5%, then the gain in the annuity would be only 7.5%.

Interest-rate cap. The maximum rate of interest the annuity will earn. For example, if the index gained 10% and the cap rate is 6%, the gain in the annuity would be 6%.

Index performance generally does not include dividends, and the way in which the performance is measured may vary, depending on the contract (see chart). Participation rates, cap rates, and other fees are set by the insurance company, and some companies reserve the right to change these provisions either annually or at the start of each contract term. These types of changes could affect the investment return.

Performance Measures

The way that index performance is measured could make a big difference in the growth of the annuity. Participation rates, cap rates, and spread/margin/asset fees will typically be combined with performance measurement to determine the actual interest rate. These are three common methods.

Annual reset (rachet)
Compares the change in the index from the beginning to the end of each year, "locking in" an investor's gain. Any declines are ignored.

Point-to-point
Compares the change in the index at two points in time, such as the beginning and ending dates of the contract term.

High-water mark
Compares the index value at the beginning of the contract to its highest value at various points during the contract (often anniversaries of the purchase date).

General considerations

Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity during the early years of the contract. However, some indexed annuities allow withdrawals of up to 10% per year without surrender charges. Any withdrawals will reduce the principal, and withdrawals before the end of an index period will receive no interest for that period. Early withdrawals prior to age 59½ may be subject to a 10% federal tax penalty.

Like all annuity contracts, indexed annuities have rules, restrictions, and expenses. Depending on the guarantees of the issuing company, it may be possible to lose money with this type of investment. Be sure to review the contract carefully before deciding whether to invest.

The S&P 500 Index is an unmanaged group of securities that is widely recognized as representative of the U.S. stock market in general. You cannot invest directly in any index, and the performance of an unmanaged index is not indicative of the performance of any specific security. Past performance is not a guarantee of future results.

1) *Investment News,* February 21, 2024

What's New for 2025?

To help you stay informed, here are five changes you can look forward to in the new year.

Higher catch-up contributions for some. As of January 1, individuals ages 60 through 63 may be able to make increased catch-up contributions (if offered) to their workplace plan. The catch-up amount for people age 50 and older is $7,500 for 2025, but for people ages 60 through 63, the limit will be $11,250.[1]

Cap on out-of-pocket Medicare drug costs. A bit of welcome news for people with Medicare Part D prescription drug coverage — a $2,000 annual cap on out-of-pocket prescription costs takes effect on January 1.[2] People with Part D will also now have the option to pay out-of-pocket costs in monthly installments over the course of the plan year instead of having to pay all at once at the pharmacy, which may help make it easier to manage prescription drug costs.

Automatic enrollment for new workplace retirement plans. Businesses that have adopted 401(k) and 403(b) plans since the passage of the SECURE 2.0 Act in December 2022 are now required to automatically enroll eligible employees at a contribution rate of 3% to 10%. After the first year, this rate will increase by 1% each year until it reaches 10% to 15%. New companies in business less than three years and employers with 10 or fewer employees are excluded, and other exceptions apply. Employees may opt out of coverage or elect a different percentage.

REAL ID deadline. The deadline for getting a REAL ID is May 7 (although the TSA has announced that enforcement may be phased in). As of that date, every air traveler who is at least 18 years old will need a REAL ID-compliant drivers license or identification card or another TSA-acceptable form of identification for domestic air travel and to enter certain federal facilities. Other TSA-acceptable documents are active passports, passport cards, or Global Entry cards. Standard drivers licenses will no longer be valid ID for TSA purposes, but enhanced drivers licenses from certain states are acceptable alternatives. Travelers who don't have a REAL ID by the deadline could face delays at airport security checkpoints. Visit the TSA website at tsa.gov for updates and information.

New credit scoring risk model for mortgages. In late 2025, lenders are expected to begin using VantageScore 4.0 and FICO Score 10 T (instead of Classic FICO) to qualify borrowers. These new credit scoring models will provide a more precise assessment of credit risk.[3] Models will consider trended credit data (an analysis of a customer's behavior over time or historical payment and balance information) and other data not previously considered as part of the Classic FICO score, such as rent, utility, and telecom payments. This change will potentially help more applicants qualify for mortgages.

1–2) These are indexed annually for inflation so may rise each year.

3) Fannie Mae and Freddie Mac, 2024