Spotlight on Trade

Both exports and imports of goods rose to record highs in January 2017, indicating that global growth could be picking up speed. The U.S. trade deficit was about $500 billion in 2016 and has not run a surplus since the mid-1970s.


Is America’s Aging Population Slowing Down the Economy?

An unprecedented demographic transition may be the primary reason for weak U.S. GDP growth compared with past economic recoveries.

Consumers Carried the Economy in 2016

Real gross domestic product grew by just 1.6% in 2016. Consumers did most of the heavy lifting.

Contributions of components to real GDP growth

<table>
<thead>
<tr>
<th></th>
<th>1.84</th>
<th>0.15</th>
<th>0.05</th>
<th>−0.26</th>
<th>−0.17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption</td>
<td></td>
<td></td>
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<tr>
<td>Government</td>
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<tr>
<td>Exports</td>
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<td>Private investment</td>
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<tr>
<td>Imports</td>
<td></td>
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Source: U.S. Bureau of Economic Analysis, 2017

Practical Insights For Your Financial Goals
Demographic Dilemma
Is America’s Aging Population Slowing Down the Economy?

It’s no secret that the demographic profile of the United States is growing older at a rapid pace. While the U.S. population is projected to grow just 8% between 2015 and 2025, the number of older Americans ages 70 to 84 will skyrocket 50%.¹

With roughly 75 million members, baby boomers (born between 1946 and 1964) make up the largest generation in U.S. history. As a group, boomers have longer life expectancies and had fewer children than previous generations.²

Now, after dominating the workforce for nearly 40 years, boomers are retiring at a rate of about 1.2 million a year, about three times more than a decade ago.³

Though the economy has continued to improve since the Great Recession, gross domestic product (GDP) growth has been weak compared with past recoveries. A number of economists now believe that demographic changes may be the primary reason.⁴

Spending Shifts
Retiring boomers are largely being replaced with younger, less experienced workers, which could reduce productivity. And with fewer young people joining the workforce, the consumer spending that fuels economic expansion and job creation could take a hit. When young people earn enough money to strike out on their own, it typically spurs additional spending — on places to live, furniture and appliances, vehicles, and other products and services that are needed to set up a new household.

On the other hand, when people retire, they typically reduce their spending and focus more on preserving their savings. Moreover, retirees’ spending habits are often different from when they were working. As a group, retirees tend to avoid taking on debt, have more equity built up in their homes, and may be able to downsize or move to places with lower living costs. More spending is devoted to covering health-care costs as people age.

If a larger, older population is spending less and the younger population is too small to drive up consumer spending, weaker overall demand for products and services could restrain GDP growth and inflation over the long term. Less borrowing by consumers and businesses could also put downward pressure on interest rates.

A New Normal?
The onslaught of retiring baby boomers has long been expected to threaten the viability of Social Security and Medicare, mainly because both are funded by payroll taxes on current workers. But this may not be the only challenge.

A 2016 working paper by Federal Reserve economists concluded that “demographic factors alone account for a 1.25 percentage point decline in the natural rate of real interest and real gross domestic product growth since 1980.” Demographic changes could remain a structural impediment to economic growth for years to come.⁵

Many economists acknowledge that U.S. population trends are a force to be reckoned with, but the potential impact is still up for debate. Some argue that labor shortages could drive up wages and spending relatively soon, followed by higher growth, inflation, and interest rates — until automated technologies start replacing larger numbers of costly human workers.⁶

Even if demographic forces continue to restrain growth, it might not spell doom for workforce productivity and the economy. Another baby boom would likely be a catalyst for consumer spending. Family-friendly policies such as paid maternity leave and day-care assistance could provide incentives for women with children to remain in the workforce. It’s also possible that a larger percentage of healthy older workers may delay retirement — a trend that is already developing — and continue to add their experience and expertise to the economy.⁷

1, 3) The Conference Board, February 24, 2017
4–5) Federal Reserve, 2016

Projected Growth in Consumer Spending, 2015–2025

<table>
<thead>
<tr>
<th></th>
<th>Health care</th>
<th>Total</th>
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<tr>
<td>8%</td>
<td></td>
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<tr>
<td>15%</td>
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</tbody>
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Source: The Conference Board, 2017
College Funding
Grandparents Can Help Bridge the Gap

A college education is a significant financial burden that is increasingly hard for students and their parents to meet with savings, current income, and a manageable amount of loans. Fortunately, some families have grandparents who are willing and able to help cover college costs. Here are a few of the gift tax and financial aid implications that generous grandparents and their families should keep in mind.

Outright Gifts
The simplest option might be to make an outright gift of cash or securities to the grandchild or to his or her parent(s). However, gifts that are larger than the annual gift tax exclusion amount ($14,000 for individual gifts or $28,000 for joint gifts in 2017) may be subject to the federal gift tax. The generation-skipping transfer tax may also apply to gifts given directly to grandchildren or great-grandchildren.

Funds gifted directly to a grandchild or a grandchild’s parent will be counted as assets for financial aid purposes. Under the federal aid formula, students must contribute 20% of their assets each year toward college costs, and parents must contribute 5.6% of their assets.

Under federal law, tuition payments made directly to a college aren’t considered taxable gifts, no matter how large the payment. However, a direct tuition payment might prompt a college to reduce any potential grant award in the grandchild’s financial aid package.

Savings Strategy
Funds invested in a state-sponsored 529 college savings plan accumulate tax deferred, and withdrawals are tax-free at the federal level (and often at the state level) when used to pay qualified higher-education expenses (tuition, fees, room and board, books, and other necessities such as computers and software).

Grandparents can set up automatic monthly contributions or they can gift a larger lump sum — a scenario in which 529 plans really shine. Under rules unique to 529 plans, individuals can make a lump-sum gift of up to $70,000 ($140,000 for a married couple) and avoid federal gift taxes by making a special election on their tax return to treat the gift as if it were made in equal installments over a five-year period. Contributing to 529 plans also removes the assets from the grandparents’ taxable estate.

Grandparents who want to maintain control of 529 plan funds could open their own accounts for one or more grandchildren, and assets can be transferred to another beneficiary in the same family (sibling, cousin, spouse, or even parent), if needed.

Families who expect to qualify for financial aid should be aware that a grandparent-owned 529 account is not counted as a parent or student asset, but withdrawals from a grandparent-owned 529 account are considered student income in the following academic year, which can decrease the grandchild’s eligibility for financial aid in that year by up to 50%. By contrast, parent-owned 529 accounts are counted as parent assets up-front, but withdrawals are not counted as student income — a more favorable treatment.

When 529 plan withdrawals are not used for qualified higher-education expenses, the earnings portion may be subject to ordinary federal and state income taxes and a 10% federal income tax penalty. The tax implications of a 529 plan should be discussed with your tax advisors because they can vary significantly from state to state.

As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.

Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses — which contain this and other information about the investment options, underlying investments, and investment company — can be obtained from your financial professional. You should read these materials carefully before investing.

Not Your Parents’ Prices
College costs have more than doubled since 1990–91, even with overall inflation taken into account.

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<tr>
<th></th>
<th>Average published tuition and fees, plus room and board (in 2016 dollars)</th>
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<tr>
<td></td>
<td>$20,092</td>
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<tr>
<td></td>
<td>$24,869</td>
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<tr>
<td>1990–91</td>
<td>Four-year public university</td>
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<tr>
<td></td>
<td>$9,364</td>
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<tr>
<td></td>
<td>$13,940</td>
</tr>
<tr>
<td>1990–91</td>
<td>Four-year (nonprofit) private university</td>
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<tr>
<td></td>
<td>$10,075</td>
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<td></td>
<td>$20,150</td>
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<tr>
<td>2016–17</td>
<td>Four-year public university</td>
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</table>

Source: College Board, 2016
Social Media Marketing Strategies

According to a 2016 survey, about three-fourths of small businesses have used social media for marketing purposes or were planning to start doing so in the coming year.1

Established networks such as Facebook, Twitter, Instagram, LinkedIn, YouTube, Pinterest, and Yelp are already well known, although Facebook is the most widely used. However, newer platforms (such as Snapchat) pop up regularly and often attract users at a rapid pace.

Joining social media sites may be free, but buying ads can be costly. Moreover, managing one or more profiles may demand a significant amount of time and effort on the part of a business owner or an employee. During a typical week, 63% of business marketers devote six or more hours to social media activities, and 39% invest at least 11 hours.2

Even so, social media can be a convenient way to build relationships with your existing customers and widen your exposure in the marketplace. Here are a few tips for managing social media profiles effectively.

Focus on operations first. Make sure your business is running smoothly before you start spending time or money on social media pursuits. However, you may want to stake a claim to your business name on sites where you expect to have a presence in the near future.

Do your homework. Consider spending several weeks or months learning to use the technology and researching the marketing techniques of similar businesses, especially if you are not currently active on social media as a consumer. The U.S. Small Business Administration has a free social media marketing course for beginners in the Learning Center at sba.gov.

Start with one account. It’s possible that one social network is more popular than others with your target audience. It may take a while to create a manageable routine for updating posts and interacting with clients online.

Keep your profile professional. Try to provide helpful information that your customers are likely to find valuable. Avoid posting negative or controversial comments. To engage potential customers, offer freebies or other incentives. A contest that gives users a chance to win a prize, or a generous coupon, may be all you need to attract a following.

Include photos, infographics, and video. Sharing visual content has also become essential, largely because your followers are more likely to notice and respond to your posts and, best case, pass them along to their own social networks.

Don’t neglect your followers. You may need to respond to client requests, concerns, or complaints quickly. Otherwise, a single mistake could become a more serious reputation problem.

1) SCORE.org, 2016
2) Social Media Examiner, 2016

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Today’s challenges might also be opportunities. Is your portfolio positioned to handle obstacles that could stand between you and your financial goals?

Mark Reynolds