The Monthly Mu$e

Ideas and concepts to consider

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Greetings,

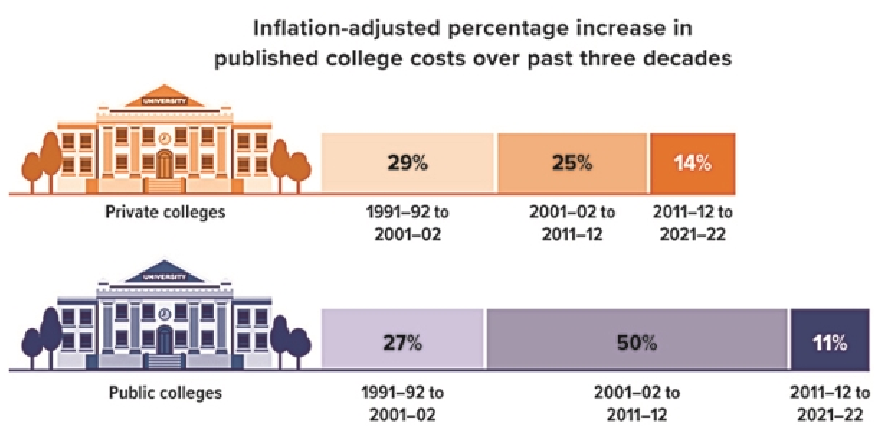
We hope you have a happy and hopefully warm spring this season! As always don't hesitate to give the office a call if you have any questions or to schedule a review appointment.

Sincerely,

Ross and Rylan

Three Decades of College Cost Increases

Over the past 30 years, the cost of college tuition, fees, room, and board has increased 85% at private colleges and 111% at public colleges *above and beyond* the rate of general inflation. After significant cost increases during the 1990s and 2000s, colleges have made a concerted effort over the last decade to rein in cost hikes. This is especially true for public colleges, as states have generally allocated more money to their higher-education budgets after years of cuts.



Source: *Trends in College Pricing and Student Aid 2021,* College Board

Working While Receiving Social Security Benefits

The COVID-19 recession and the continuing pandemic pushed many older workers into retirement earlier than they had anticipated. A little more than 50% of Americans age 55 and older said they were retired in Q3 2021, up from about 48% two years earlier, before the pandemic.[1]

For people age 62 and older, retiring from the workforce often means claiming Social Security benefits. But what happens if you decide to go back to work? With the job market heating up, there are opportunities for people of all ages to return to the workforce. Or to look at it another way: What happens if you are working and want to claim Social Security benefits while staying on your job?

Retirement Earnings Test

Some people may think they can't work — or shouldn't work — while collecting Social Security benefits. But that's not the case. However, it's important to understand how the retirement earnings test (RET) could affect your benefits.

- The RET applies only if you are working and receiving Social Security benefits *before* reaching full retirement age (FRA). Any earnings after reaching full retirement age do not affect your Social Security benefit. Your FRA is based on your birth year: age 66 if born in 1943 to 1954; age 66 & 2 months to 66 & 10 months if born in 1955 to 1959; age 67 if born in 1960 or later.
- If you are under full retirement age for the entire year in which you work, $1 in benefits will be deducted for every $2 in gross wages or net self-employment income above the annual *exempt amount* ($19,560 in 2022). The RET does not apply to income from investments, pensions, or retirement accounts.
- A monthly limit applies during the year you file for benefits ($1,630 in 2022), unless you are self-employed and work more than 45 hours per month in your business (15 hours in a highly skilled business). For example, if you file for benefits starting in July, you could earn more than the annual limit from January to June and still receive full benefits if you do not earn more than the monthly limit from July through December.
- In the year you reach full retirement age, the reduction in benefits is $1 for every $3 earned above a higher annual exempt amount ($51,960 in 2022 or $4,330 per month if the monthly limit applies). Starting in the month you reach full retirement age, there is no limit on earnings or reduction in benefits.
- The Social Security Administration may withhold benefits as soon as it determines that your earnings are on track to surpass the exempt amount. The estimated amount will typically be deducted from your monthly benefit in full. *(See example.)*
- The RET also applies to spousal, dependent, and survivor benefits if the spouse, dependent, or survivor works before full retirement age. Regardless of a spouse's or dependent's age, the RET may reduce a spousal or dependent benefit that is based on the benefit of a worker who is subject to the RET.

Back to Work

In this hypothetical example, Fred claimed Social Security in 2021 at age 62, and he was entitled to a $1,500 monthly benefit as of January 2022. Fred returned to work in April 2022 and is on track to earn $31,560 for the year — $12,000 above the $19,560 RET exempt amount. Thus, $6,000 ($1 for every $2 above the exempt amount) in benefits will be deducted. Assuming that the Social Security Administration (SSA) became aware of Fred's expected earnings before he returned to work, benefits might be paid as illustrated below.

In practice, benefits may be withheld earlier in the year or retroactively, depending on when the SSA becomes aware of earnings.

The RET might seem like a stiff penalty, but the deducted benefits are not really lost. Your Social Security benefit amount is recalculated after you reach full retirement age. For example, if you claimed benefits at age 62 and forfeited the equivalent of 12 months' worth of benefits by the time you reached full retirement age, your benefit would be recalculated as if you had claimed it at age 63 instead of 62. You would receive this higher benefit for the rest of your life, so you could end up receiving substantially more than the amount that was withheld. There is no adjustment for lost spousal benefits or for lost survivor benefits that are based on having a dependent child.

If you regret taking your Social Security benefit before reaching full retirement age, you can apply to withdraw benefits within 12 months of the original claim. You must repay all benefits received on your claim, including any spousal or dependent benefits. This option is available only once in your lifetime.

1) Pew Research Center, November 4, 2021

Going Green: A Fast-Growing Corner of the Global Bond Market

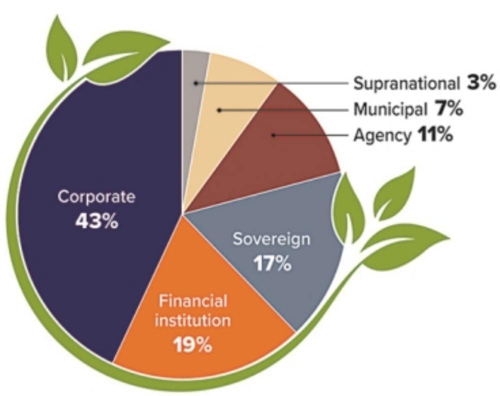
Green bonds are debt instruments that corporations and governments can use exclusively to finance major climate-related or eco-friendly initiatives. Global issuance of green bonds reached a record $523 billion in 2021, and is expected to exceed $775 billion in 2022.[1]

The growth in green bonds is closely tied to a broader investment trend that gained traction in recent years: Investors have increasingly considered environmental, social, and governance (ESG) principles in their efforts to address the world's problems and help reduce the related portfolio risks.

Prioritizing the Planet

Some common types of projects funded by green bonds include transitioning to renewable energy, modernizing the electric grid, ensuring sustainable water supplies, and building clean transportation systems. Issuers must typically provide investors with certain information, such as a detailed outline of the project they plan to fund, estimates of the environmental impact, and regular progress reports. The European Union and a growing number of sovereign nations have issued green bonds. The U.S. government has not sold green bonds, but mortgage giant Fannie Mae, some states and municipalities, and well-known U.S. corporations have issued them.[2]

Share of 2021 Global Green Bond Issuance



Source: Moody's, 2022

Like all bonds, green bonds are rated for credit risk. A range of AAA down to BBB (or Baa) is considered "investment grade," and lower-rated or "junk" bonds carry greater risk.

Investors who take on more risk are generally compensated with higher interest rates. Because government entities have the power to raise taxes and fees as needed to pay the interest, municipal bonds are generally considered less risky than corporate bonds, so they typically offer lower interest rates.

Bond prices and interest rates are also influenced by supply and demand. In some cases, enthusiastic investor demand for green bonds has driven up prices and pushed down yields, resulting in a small cost savings (0.1 to 0.2 percentage point) for the issuers. This also suggests that the buyers were willing to pay a slight premium (or "greenium") for bonds that are intended to fund a greener future.[3]

Evolving Standards

The term "greenwashing" describes the concern that some companies might try to attract eco-conscious investors with misleading claims. Corporations don't always report sufficient ESG data, and currently there is no standardized criteria by which to judge sustainability-related risks and investment opportunities. However, investors may soon have access to more reliable information. The International Sustainability Standards Board has been tasked with setting global standards that may provide a baseline for ESG disclosure.[4] U.S. regulators at the Securities and Exchange Commission are expected to propose new climate-risk disclosure rules.[5]

Some corporate bond issuers enlist third parties to provide verification that their green bonds would indeed finance projects intended to have a positive environmental impact. Still, investors may want to look beyond a bond investment's green label and take a deeper dive into the specific projects being funded, as well as the issuer's finances and overall environmental record.

The principal value of all bonds tends to fluctuate with changes in market conditions. As interest rates rise, bond prices typically fall, and vice versa. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. In addition to credit and interest-rate risks, the risks associated with purchasing bonds from other countries include differences in financial reporting, currency exchange risk, as well as economic and political risks unique to a specific country. This may result in greater price volatility.

Interest paid by municipal bonds issued by the owner's state or local government is typically free of federal income tax. If a bond was issued by a municipality outside the home state, the interest could be subject to state and local income taxes. A municipal bond sold at a profit could incur capital gains taxes. Some municipal bond interest could be subject to the [federal and state] alternative minimum tax.

1) Moody's, January 31, 2022

2) World Economic Forum, October 26, 2021

3) *The Wall Street Journal* , December 17, 2020

4) S&P Global, October 15, 2021

5) Bloomberg, September 15, 2021

Planning to Quit Your Job? What to Know Before You Go

About 4.3 million U.S. workers quit their jobs voluntarily in December 2021, after a record 4.5 million quit in November — the largest number since the Bureau of Labor Statistics (BLS) began recording voluntary job separations in December 2020.[1]

There are plenty of theories about why people are quitting in droves, including a strong job market and pandemic-induced worker burnout. Regardless of your reasons, here are a few important considerations to keep in mind before you join the employment exodus.

Your plan should reflect reality. Unless you already have a new job lined up, be realistic about how long it might take to re-enter the workforce. According to the BLS, almost one-third of individuals who were unemployed in December 2021 had been out of work for 27 weeks or more.[2] Could you afford to maintain your current lifestyle without being paid for six months or even longer? You might need sufficient savings to cover your expenses for at least that long.

Before giving notice, assess your entire range of financial needs and the potential consequences of quitting.

You may incur new expenses. Voluntarily leaving your job can affect your financial security in other ways, too. For example, you might lose important workplace benefits, such as typically more affordable group life, health, and dental insurance, and access to an employer-sponsored retirement plan. Maintaining these benefits while unemployed could be financially burdensome at best — or impossible at worst. Before giving notice, assess your entire range of financial needs and the potential consequences of quitting.

It can pay to stay. Because hiring and training new workers can be time-consuming and costly, some employers may be more willing to make concessions to keep the employees they already have. Whether you want a higher salary, new responsibilities, or a different work/life arrangement, this could be an ideal time to make your case to your employer. Consider listing examples of the current and future value you bring to your job. Then schedule a meeting with your manager to discuss those points and make a proposal. It could turn out to be a win-win proposition.

1-2) U.S. Bureau of Labor Statistics, 2022