

# Warren Wealth Wisdom

Putting Clients First



## Warren Wealth Associates

28 Mountain Blvd

Warren, NJ 07059

908-769-9400

warrenwealthassociates@warrenwealthassociates.com

www.warrenwealthassociates.com



CHRIS- Sue and Chris are looking forward to fall hikes with their dog Molly, and some weekend getaways, as well as time with their now 25 and 22 year old sons. Where does the time go? We hope all is well with you and your families.

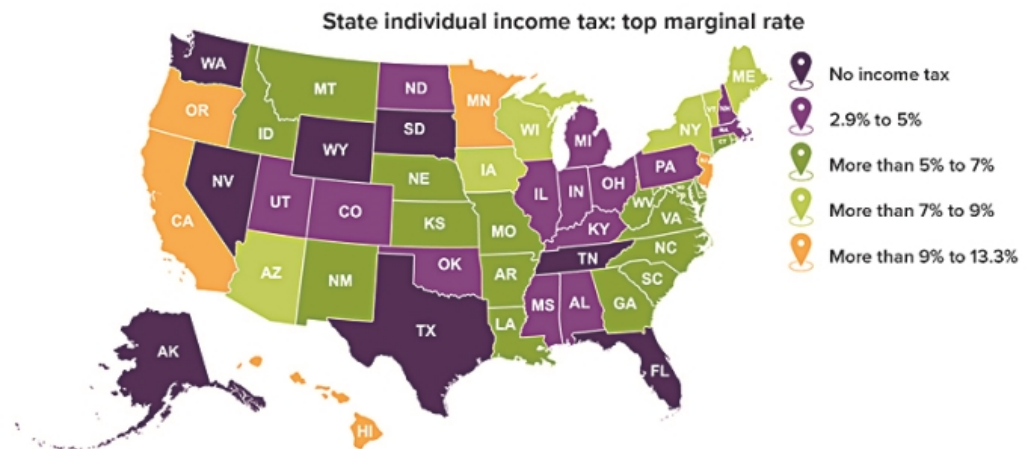
SCOTT- Eleanor started dance classes as a designated daddy/daughter activity, so Scott has been brushing up on his moves! The family just took a trip down the shore and spent more time at the playground than the beach. They plan on catching up with friends in this fall season.

RONNIE- Ronnie has recently celebrated 1 year with WWA. She is still enjoying the great outdoors with hikes and took a wonderful little trip to Cape May in July. She is also looking forward to a trip to Myrtle Beach, Murrells Inlet and Charleston, SC in early October.

JENICA- Jenica has been studying hard for her PT exam (NASM) to further expand her knowledge in the gym! She is also still doing a lot of beachcombing, as treasures after these historic storms have been quite abundant!

## 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

# Tips for Managing an Inheritance

As the beneficiary of an inheritance, you are most likely to be faced with making many important decisions during an emotional time. Short of meeting any required tax or legal deadlines, don't make any hasty decisions concerning your inheritance.

## Identify a Team of Trusted Professionals

Tax laws and requirements can be complicated. Consult with professionals who are familiar with assets that transfer at death. These professionals may include an attorney, an accountant, and a financial and/or insurance professional.

## Be Aware of the Tax Consequences

Generally, you probably will not owe income tax on assets you inherit. However, your income tax liability may eventually increase. Any income that is generated by inherited assets may be subject to income tax, and if those assets produce a substantial amount of income, your tax bracket may increase. This is particularly true if you receive distributions from a tax-qualified retirement plan such as a 401(k) or an IRA. You may need to re-evaluate your income tax withholding or begin paying estimated tax.

You also may need to consider the amount of potential transfer (estate) taxes that your estate may owe, due to the increase in the size of your estate after factoring in your inheritance. You may need to consider ways to help reduce these potential taxes.

## How You Inherit Assets Makes a Difference

Your inheritance may be received through a trust or you may inherit assets outright. When you inherit through a trust, you'll receive distributions according to the terms of the trust. You may not have total control over your inheritance as you would if you inherited the assets outright.

Familiarize yourself with the trust document and the terms under which you are to receive trust distributions. You will have to communicate with the trustee of the trust, who is responsible for the administration of the trust and the distribution of assets according to the terms of the trust.

Even if you're used to handling your own finances, receiving a significant inheritance may promote spending without planning. Although you may want to quit your job, or buy a car, a house, or luxury items, this may not be in your best interest. Consider your future needs, as well, if you want your wealth to last. It's a good idea to wait at least a few months after inheriting money to formulate a financial plan. You'll want to consider your current lifestyle and your future goals, formulate a financial strategy to meet those goals, and determine how taxes may reduce your estate.



---

*Receiving a significant inheritance may promote spending without planning, but don't make any hasty decisions.*

---

## Develop a Financial Plan

Once you have determined the value and type of assets you will inherit, consider how those assets will fit into your financial plan. For example, in the short term, you may want to pay off consumer debt such as high-interest loans or credit cards. Your long-term planning needs and goals may be more complex. You may want to fund your child's college education, put more money into a retirement account, invest, plan to help reduce taxes, or travel.

## Evaluate Your Insurance Needs

Depending on the type of assets you inherit, your insurance needs may need to be adjusted. For instance, if you inherit valuable personal property, you may need to adjust your property and casualty insurance coverage. Your additional wealth from your inheritance means you probably have more to lose in the event of a lawsuit. You may want to purchase an umbrella liability policy that can help protect you against actual loss, large judgments, and the cost of legal representation. You may also need to recalculate the amount of life insurance you need because of your inheritance. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased.

## Evaluate Your Estate Plan

Depending on the value of your inheritance, it may be appropriate to re-evaluate your estate plan. Estate planning involves conserving your money and putting it to work so that it best fulfills your goals. It also means helping reduce your exposure to potential taxes and creating a comfortable financial future for your family and other intended beneficiaries.

Some things you should consider are to whom your estate will be distributed, whether the beneficiary(ies) of your estate are capable of managing the inheritance on their own, and how you can best shield your estate from estate taxes. If you have minor children, you may want to protect them from asset mismanagement by nominating an appropriate guardian or setting up a trust for them. If you have a will, your inheritance may make it necessary to make significant changes to that document, or you may want to make an entirely new will or trust. There are costs and ongoing expenses associated with the creation and maintenance of trusts and wills. Consult with an estate planning attorney for proper guidance.

# 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>

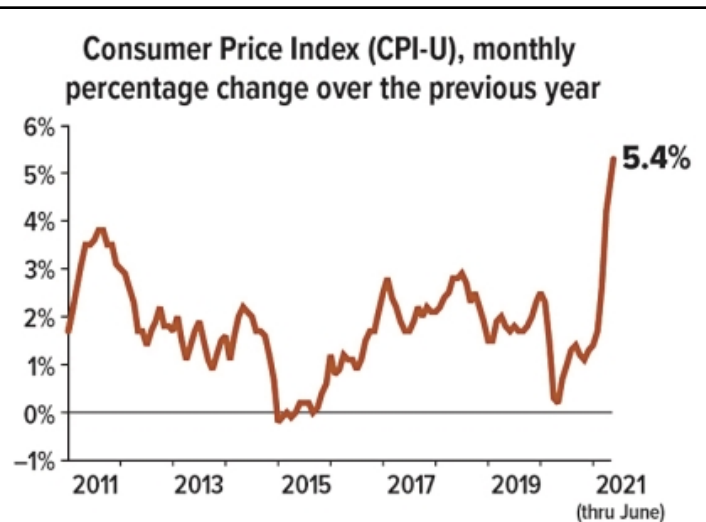
## Monitoring Inflation

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.

---

The accompanying pages have been developed by an independent third party. Commonwealth Financial Network is not responsible for their content and does not guarantee their accuracy or completeness, and they should not be relied upon as such. These materials are general in nature and do not address your specific situation. For your specific investment needs, please discuss your individual circumstances with your representative. Securities and Advisory Services offered through Commonwealth Financial Network ("Commonwealth"), Member FINRA/SIPC, a Registered Investment Adviser. Commonwealth does not provide tax or legal advice, and nothing in the accompanying pages should be construed as specific tax or legal advice. Fixed Insurance products and services offered through CES Insurance Agency or Warren Wealth Associates.