



Registered Investment Advisor Firm

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What is the Federal Debt level?

The federal debt has surpassed the size of the US economy for the first time since World War II. The debt has risen by more than \$3 trillion in just 6 months, the largest annual leap in American indebtedness since the 1790's. US debt now stands at \$20.83 trillion or roughly 106 percent of Gross Domestic Product (GDP). That threshold was once dreaded as a “major breaking point”. Debt hawks warned that this level of borrowing would create “a spiral of inflation, a spike in interest rates or a loss of confidence in the currency”. It has not.

This is a time when borrowing is what we should be doing. We need to borrow to fight the pandemic in ways that will help the economy become more resilient and recover more quickly.

This is not the time to worry about debt. The “safe” level of national debt depends on interest rates and the rate of economic growth. As long as the long-run economy is growing faster than interest rates, there is room before debt

becomes a problem. Right now, the US is issuing debt with an interest rate of just 0.65 %.

The experience of Japan, which has lived with high levels of debt for years, is instructive: When trying to cut spending, you end up slowing the economy and spend more on stimulus, so attempts to cut the budget deficit often made the debt worse, not better.

Social Security raise in 2021?

The COVID-19 pandemic has caused prices of goods and services to drop which is good news for most household budgets but worrisome for retirees who receive Social Security benefits. Kiplinger is forecasting that the 2021 Social Security cost-of-living adjustment (COLA) will be below 1%. The Center for Retirement Research at Boston College says seniors may not get any increase in 2021, only the fourth time that happened since automatic COLAs were introduced in 1975. The 2021 COLA will be based on the increase in the consumer price index (CPI-W) from the third quarter of 2019 through the

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third quarter of 2020. The COLA for 2020 was 1.6%.

Meanwhile, the 2020 Social Security Trustees' Report, issued in April, projects that the Old-Age and Survivors Insurance (OASI) Trust Fund, which pays the retirement and survivors benefits, will be able to pay scheduled benefits until 2034, the same as last year's report. That's when the fund's reserves will become depleted and recipients could see a 21% cut in benefits. The 2021 Trustees' Report is likely to show an even more dire forecast, because it will reflect data available after the pandemic's severe blow to the economy.

Congress keeps kicking the can down the road but is likely to take action to shore up the system closer to the time the trust fund runs out of money. Proposals to fix Social Security include raising the full retirement age to 69 or 70, or gradually increasing the payroll tax from its current 6.2%. Bills have been introduced in Congress to raise the cap on the amount of income subject to the payroll tax from the current \$128,000. Other proposals call for revising how the COLAs are calculated so the annual benefit increases will be smaller -a change that would affect current and future beneficiaries.

Is the IRS backlogged?

The Internal Revenue Service (IRS) is struggling with staff shortage as the agency tries to return to work while ensuring the safety of its employees amid the pandemic. At one point the

IRS was shut down for 30 days. The Washington Post reports that workers are attempting to get through an enormous stack of mail, respond to taxpayers and answer questions on its hotline.

Years of budget cuts, outdated paper-based systems and a slow transition to telework have compounded the problems. If you filed a paper or amended return or had a return flagged for identity theft, expect a long wait before you receive a response.

Are banks freezing credit?

Banks are pulling back on their risk exposure by cutting credit card limits or cancelling cards altogether, according to CreditCards.com. As a benchmark, consider that during the Great Recession, the October 2008 Fed Senior Loan Officer Survey found 20% of card companies cut credit lines for customers with good credit scores and 60% reduced lines for subprime cardholders.

Unused cards are prime candidates for cancellation, so if you haven't made a purchase on a card in a while, buy something small and pay it off right away. Keeping cards open helps your credit score because it aids your credit utilization ratio -the credit you're using divided by your credit limit. Your credit limit could be cut or your card cancelled if you get close to your credit limit. If you're having trouble making payments, let your card issuer know, they will probably work with you on a payment plan.

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During the Great Recession, banks also froze home-equity lines of credit (HELOC) as home prices plummeted. So far, home prices haven't shown signs of distress, but Wells Fargo and Chase are among large banks pausing HELOC applications.

If you need help understanding any of the above questions and answers or any other financial questions, contact me at (707) 648-2024.

Q&A Corner

Q: Are seniors being targeted for scams?

A: The IRS is warning individuals to be wary of e-mails, text messages or phone calls that purport to be from the IRS. Seniors are one group especially at risk from these scams. As older individuals become more adept at using electronic mail and social media, scammers are taking advantage. The IRS generally doesn't make unsolicited calls or send unsolicited texts or e-mails. It contacts taxpayers first by postal mail.

Q: Are there crooked contact tracers?

A: As the pandemic spreads to communities throughout the US, the epidemic of coronavirus related fraud continues and bogus contact tracers are on the rise.

Contact tracers, who are employed by state health departments, are an important tool in controlling the spread of the pandemic. Legitimate tracers may contact you via phone, email, text or in person to find out names of people you've been in contact with and places you've visited. If someone claiming to

be a contact tracer asks you for money, or requests your Social Security number or financial information, the individual is a fraud, the Federal Trade Commission (FTC) says. Fraudulent contact tracers are also lurking online says the FTC. Don't click on a link or download a file sent by someone purporting to be a tracer. Legitimate contact tracers will never ask you to download anything.

STAY THE COURSE

FED Watch

At the September FED meeting, the last before the election, interest rates were left unchanged, as expected.

The FED had the following notes:

- Maintain accommodating stance until inflation target is achieved.
- Economic activity and employment have picked up from depressed levels.
- The Fed is taking forceful action to ensure recovery.
- Fed average inflation will largely be flexible.
- Inflation is running well below 2%.
- The Fed seeks 2% inflation long-term, but will allow above 2% for some time.
- They will maintain the current range until confident of recovery.
- Rates near zero through 2022.
- The path of the economy will depend significantly on the course of the virus.
- Keep rates near-zero until central bank is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.
- The slowdown induced sharp declines in activity.

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- The economy to run above trend in 2021 and 2022.
- The economy will need support from Congress.
- Signs of improvement in business investment.
- Weak demand and oil prices held inflation down.
- The Fed will purchase additional assets to support the economy.
- Despite increased prices for some consumer goods, inflation is subdued and the path ahead remains highly uncertain.

Currently, there is very little chance of a rate change this year or next.

Next meeting:
November 3rd and 4th.

Castle Rock Wealth Management

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If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at:

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