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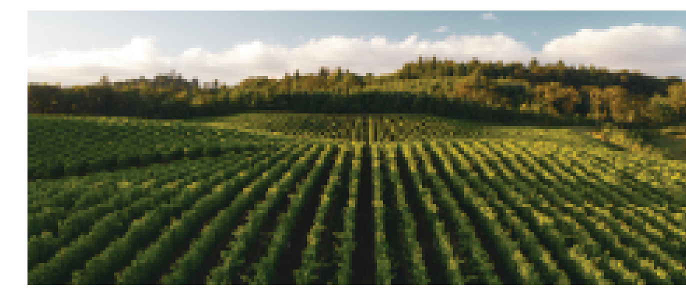
## A Beginner's Guide to Inflation

A June 2023 Forbes article, The Price is Right: U.S. Inflation Hits Two-Year Low in May a combination of higher interest rates, easing supply chain challenges, and more restrictive credit has helped ease inflation in 2023. As of this past May, the annualized rate of CPI inflation declined for the eleventh consecutive month.

However, many people are still a little unsure about what causes inflation and how it may actually affect their financial strategy, so this month we're providing a little inflation 101. An Investopedia article, Inflation: What It Is, How It can Be Controlled, and Extreme Examples provides some useful insights and information.

**What is Inflation?**
Inflation is a rise in prices and a drop in purchasing power over time. The level at which purchasing power falls can be shown in the average price increase of a basket of selected goods and services over a defined period of time.

*Continued on next page…*



## Why the American School Year Starts in Fall

The short answer is farming. Back in the day, rural families needed the children at home to help with harvesting the crops, so school would be put on hold for the colder months. In the cities, however, school essentially ran all year with a few short vacations throughout. Their school years ranged from 251 to 260 days. It wasn't until 1852 that Massachusetts became the first state to enact a compulsory public education law, meaning parents who didn't send their children to school year-round were fined. Shortly after, a compromise was made between urban and rural school systems to run at the same time.

https://www.rd.com/article/why-school-year-starts-fall/

## Apple Cider Chicken

**INGREDIENTS**

- 4 tsp extra-virgin olive oil, divided
- 1 1/2 lbs boneless skinless chicken thighs
- 1 tsp kosher salt, divided
- 1/2 tsp freshly ground black pepper, divided
- 1/2 cup fresh apple cider
- 2 tsp Dijon mustard
- 3 medium firm sweet apples, cored and cut into 1/2 inch slices
- 2 tsp chopped fresh rosemary, plus additional for serving

**DIRECTIONS**

1. Heat 2 teaspoons of oil in a large skillet over medium heat. Sprinkle the top of the chicken evenly with 1/2 teaspoon kosher salt and 1/4 teaspoon pepper. Once the oil is hot and shimmering, add the chicken to the pan, top-side down. Let cook 4 minutes, then flip and continue cooking until the meat is cooked through and reaches an internal temperature of 160 degrees, 3 to 4 additional minutes. Remove to a plate and cover with foil to keep warm.
2. In a small bowl or large measuring cup, stir together the apple cider and mustard. With a paper towel, carefully wipe the skillet clean. Add the remaining 2 teaspoons of oil to the pan over medium heat. Once the oil is hot, add the apple slices, remaining 1/2 teaspoon salt and 1/4 teaspoon pepper, and rosemary. Cook for 5 minutes, until the apples are lightly tender and begin to turn golden. Return the chicken to the pan and pour the cider mixture over the top. Let cook for 4 to 5 minutes, until the liquid is reduced by half. Serve warm, sprinkled with additional chopped rosemary as desired.

https://www.wellplated.com/apple-cider-chicken/#wprm-recipe-container-33754

# A BEGINNER'S…

An *Investopedia* article, Basket of Goods: Definition, CPI Calculation, and Example explains that here in the U.S., each month the Bureau of Labor Statistics collects the prices of around 94,000 items from a scientifically chosen sample of goods and services and gathers them into a representative sample.

Here's a quick recap of some key takeaways when it comes to understanding what inflation is:

- Inflation is the rate at which the costs of goods and services increase
- Inflation is sometimes classified in three categories: demand-pull, cost-push, and built-in
- The most used inflation indexes are the Wholesale Price Index and the Consumer Price Index
- Depending on your personal view, as well as the pace of change, inflation can be viewed either positively or negatively
- People with tangible assets like property or stocked commodities may prefer to see some level of inflation because it may increase the value of those assets

From a data standpoint, it's fairly straightforward to track price changes of a few products over time, but people rely on more than just one or two or even a small handful of products and services to meet their basic needs. They include things like grains, metal, fuel, healthcare, entertainment, utilities and more.

That's why inflation seeks to determine the broad impact of price changes for a range of products and services. It provides a single value representation of the increase in the price level of those goods and services in an economy during a set period.

A rise in prices means that our money can purchase fewer goods and services. That loss of purchasing power negatively affects many people's cost of living and that ultimately leads to reduced economic growth.

**Causes of Inflation**
A rise in the money supply is the root cause of inflation, though it ultimately plays out within the economy in various ways. A nation's money supply can be increased by monetary authorities by:

- Printing and offering more money to its people
- Legally devaluing legal tender currency
- Loaning new money as reserve credits via the banking system by purchasing government bonds from banks on the secondary market, which is the most typical method

In each of these examples, money ends up losing purchasing power. The mechanisms behind why this drives inflation can be lumped into three categories: demand-pull inflation, cost-push inflation, and built-in inflation.

**Three Types of Inflation**
We see demand-pull inflation when there's an increase in the money supply and credit stimulates the overall demand for goods and services to increase quicker than the economy's production ability. This increases demand which can then lead to price increases.

Cost-push inflation occurs when the rise in prices work through the production process. When increases to the money supply and credit funnel their way into a commodity or other asset market, the costs of numerous intermediate goods, jump.

Built-in inflation is related to changing expectations or the notion that people expect current inflation rates to continue. As prices rise, and people expect those increases to continue, they may demand higher wages to offset those rises and maintain their lifestyle.


SOURCES
https://www.forbes.com/advisor/investing/current-inflation-rate/
https://www.investopedia.com/terms/i/inflation.asp
https://www.investopedia.com/terms/b/basket_of_goods.asp




# COMING IN 2024: NEW 529 PLAN-TO-ROTH IRA ROLLOVER OPTION

The mortgage industry has been on a roller coaster In December 2022, Congress passed the SECURE 2.0 Act. It introduced two new rules relating to 529 plans and student debt that will take effect in 2024.

The first provision allows for tax- and penalty-free rollovers from a 529 plan to a Roth IRA. The second provision allows student loan payments made by employees to qualify for employer retirement matching contributions.

**529 Plan to Roth IRA Rollover**
529 plans are tax-advantaged savings accounts specifically geared to saving for college. In an effort to broaden their flexibility in situations where families have extra funds in an account, Congress created a new rollover option. Starting in 2024, 529 plan beneficiaries can roll over up to $35,000 to a Roth IRA over their lifetime. Here are the specific rules:

- Any rollover is subject to annual Roth IRA contribution limits, so a beneficiary can't roll over $35,000 all at once. For example, in 2023, the Roth IRA contribution limit is $6,500 (for people under age 50) or earned income, whichever is less. If the limit remains the same in 2024, a beneficiary would be able to roll over up to $6,500.

- In order for the rollover to be tax- and penalty-free, the 529 plan must have been open for at least 15 years. If the 529 account owner (typically a parent) changes the beneficiary of the 529 plan at any point, this could potentially restart the 15-year clock.

- Contributions to a 529 plan made within five years of the rollover date can't be rolled over — only 529 contributions made outside of the five-year window can be rolled over to the Roth IRA. For more information on determining the date of contributions, contact the 529 plan manager.

*Example:* Kate opens a 529 account for her son Joe when he is three years old. Kate contributes to the account for 15 years. At age 18, Joe enters college. Kate continues to contribute to the account while Joe is in college. Joe graduates, and there is money left over in the 529 account. Because the account has been open for at least 15 years, Joe is eligible to roll over funds from the 529 account to a Roth IRA in his name. He can roll over an amount up to the annual Roth IRA contribution limit, provided he doesn't transfer any contributions made to the 529 account in the past five years. Joe can continue rolling over funds from the 529 plan to the Roth IRA (consecutive years or intermittent years) until he has reached the $35,000 lifetime limit.

**Student Loan Payments Can Qualify for Employer Retirement Match**
Employees with student debt often have to prioritize repaying their loans over contributing to their workplace retirement plan, which can mean missing out on any potential employer retirement matching contributions. Starting in 2024, the SECURE 2.0 Act gives employers the option to treat an employee's student loan payments as payments made to a qualified retirement plan (student loan payments will be considered an "elective deferral"), which would make those contributions eligible for an employer retirement match (if an employer offers this benefit).

*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. The tax implications of a 529 plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Most states offering their own 529 plans may provide advantages and benefits exclusively for their residents and taxpayers, which may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read 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 by contacting your financial professional.*