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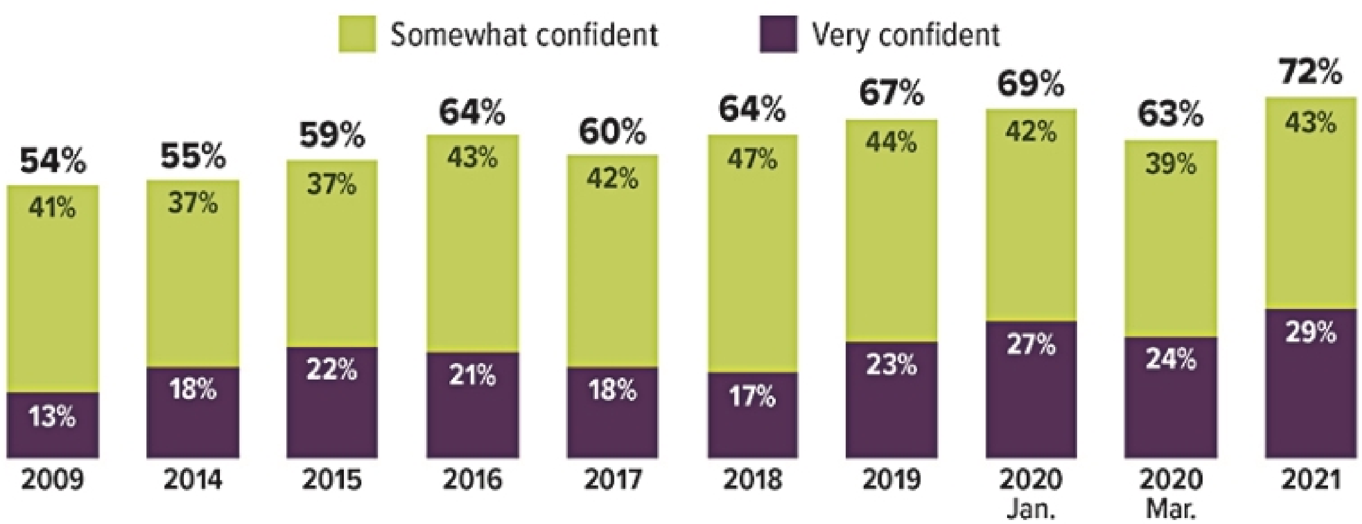
Please make sure to read John Stewart's article "Banks Kick Off Earning Season" below.

Can You Fund Your Retirement?

In January 2021, more than seven out of 10 workers were very or somewhat confident that they would have enough money to live comfortably throughout their retirement years. This was the highest confidence level since 2000 and a significant rebound from levels in March 2020 after the pandemic began. Overall, retirement confidence has trended upward since the Great Recession.



Source: Employee Benefit Research Institute, 2021 (two surveys were conducted in 2020)

Banks Kick Off Earnings Season

The large money center banks kicked off the second quarter earnings reporting season this week. Names like JPMorgan, Bank of America, Citigroup, and Goldman Sachs all reported their sales and profit figures for the quarter ending June 30th. Despite the fact that most of the numbers reported by these banks surpassed analysts' estimates, the stocks traded mostly lower in the wake of their respective reports. Why? For a couple of reasons, actually. First of all, stock prices care more about the future than the past, and loan growth at the big banks seems to be slowing quite significantly. In addition, longer-term interest rates have been trending lower for the past couple of months, and that is likely to negatively impact the profitability of the loans these banks are able to make going forward. Lower volumes and tighter margins could crimp future earnings at the banks unless recent trends change direction. The rise in the overall stock market has obviously foretold what is sure to be a very strong quarter for earnings growth. However, it will be important for earnings expectations for the third and fourth quarter to continue to move higher in order for stocks to continue moving in the right direction. The good news is that the probability of this occurring is quite high.

Although many investors these days seem entirely unconcerned with the price or valuation they're paying for the stocks they purchase, the discerning investor typically likes to find companies that are trading at an attractive price relative to some fundamental metric like earnings per share. At the same time, most investors like the prospect of a company that is expected to grow its sales and earnings power over time. While this is an entirely reasonable approach to evaluating the merits of a particular company's stock relative to its peers, it is important to tread very carefully when something appears too good to be true.

One big red flag investors should pay attention to is when a company's estimated earnings growth exceeds its ratio of price-to-earnings. For example, if you're paying $10 for every dollar of earnings power for a stock while analysts expect that company's earnings to grow at a rate of 15%, there is likely an unknown risk factor that makes this opportunity appear unusually attractive. The market could be sending a signal that earnings estimates are far too high and need to come down. Always remember, there are no free lunches when it comes to investing.

Economic growth has surged so far this year coming out of last year's pandemic induced coma – that's certainly no secret. What also isn't a secret, is that we've seen inflation rates rise at levels above anything we've experienced for the past couple of decades. As long as economic growth continues at a relatively brisk pace, people are willing to put up with some modestly higher inflation. What causes concern is when growth slows while inflation remains hot. This is what we call Stagflation. We're starting to see some signs that this may in fact be happening. If things continue in this direction, Growth stocks and defensive sectors like Utilities and Real Estate are likely to outperform while Value stocks and cyclical sectors like Financials and Industrials are likely to underperform.

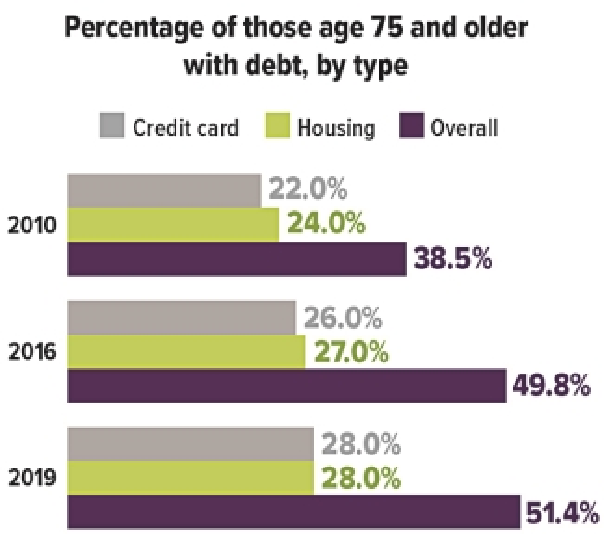
Don't Let Debt Derail Your Retirement

Debt poses a growing threat to the financial security of many Americans — and not just college graduates with exorbitant student loans. Recent studies by the Center for Retirement Research at Boston College (CRR) and the Employee Benefit Research Institute (EBRI) reveal an alarming trend: The percentage of older Americans with debt is at its highest level in almost 30 years, and the amount and types of debt are on the rise.

Debt Profile of Older Americans

In the 20-year period from 1998 to 2019, debt increased steadily for families with household heads age 55 and older; in recent years, however, the increase has largely been driven by families with household heads age 75 and older. From 2010 to 2019, the percentage of this older group who carried debt rose from 38.5% to 51.4%, the highest level since 1992. By contrast, the percentage of younger age groups carrying debt either rose slightly or held steady during that period.

Debt and the Age 75+ Population



Source: Employee Benefit Research Institute, 2020

Mortgages comprise the largest proportion of debt carried by older Americans, representing 80% of the total burden. According to EBRI, the median housing debt held by those age 75 and older jumped from $61,000 in 2010 to $82,000 in 2019. The CRR study reported that baby boomers tend to have bigger debt loads than older generations, largely because of pricey home purchases financed by small down payments. Consequently, economic factors that affect the housing market — such as changes in interest rates, home prices, and tax changes related to mortgages — may have a significant impact on the financial situations of both current and future retirees.

Credit-card debt is the largest form of nonhousing debt among older Americans. In 2019, the incidence of those age 75 and older reporting credit-card debt reached 28%, its highest level ever. The median amount owed rose from $2,100 in 2010 to $2,700 in 2019.

Medical debt is also a problem and often the result of an unexpected emergency. In the CRR study, 21% of baby boomers reported having medical debt, with a median balance of $1,200. Among those coping with a chronic illness, one in six said they carry debt due to the high cost of prescription medications.

Finally and perhaps most surprisingly, student loan obligations are the fastest-growing kind of debt held by older adults. Sadly, it appears that older folks are generally not borrowing to pursue their own academic or professional enrichment, but instead to help children and grandchildren pay for college.

How Debt Might Affect Retirement

Both the CRR and EBRI studies warn that increasing debt levels may be unsustainable for current and future retirees. For example, because the stress endured by those who carry high debt loads often results in negative health consequences, which then result in even more financial need, the effect can be a perpetual downward spiral. Another potential impact is that individuals may find themselves postponing retirement simply to stay current on their debt payments. Yet another is the risk that both workers and retirees may be forced to tap their retirement savings accounts earlier than anticipated to cope with a debt-related crisis.

If you are retired or nearing retirement, one step you can take is to evaluate your debt-to-income and debt-to-assets ratios, with the goal of reducing them over time. If you still have many years ahead of you until retirement, consider making debt reduction as high a priority as building your retirement nest egg.

Sources: Center for Retirement Research at Boston College, 2020; Employee Benefit Research Institute, 2020

Can Creditors Take Your Retirement Savings? It Depends

Given the immense financial hardship inflicted by the COVID-19 pandemic, a rise in personal bankruptcies could be waiting in the wings. For those whose livelihoods have been hit the hardest, it might be important to review the creditor protections that apply to their retirement accounts.

The extent to which assets are protected can vary significantly, depending on the type of account and applicable federal or state law. Being aware of the details can help individuals in financial or legal jeopardy determine whether and/or when they should file for bankruptcy to preserve their retirement funds. It may also help them avoid costly rollover mistakes.

Employer Plans

Most employer-sponsored retirement plans, such as 401(k)s, provide virtually unlimited protection against both bankruptcy and non-bankruptcy general creditor claims under the Employee Retirement Income Security Act of 1974 (ERISA). An example of a general creditor claim is when a person files a lawsuit and wins a judgment in court against the account owner. Thanks to ERISA, creditors cannot attach retirement account funds to satisfy any debts or obligations, regardless of whether bankruptcy has been declared.

Solo 401(k) plans, which are often utilized by self-employed individuals and independent contractors, are not covered by ERISA. This means that solo 401(k) plans — along with other non-ERISA employer plans such as 403(b)s, 457(b) governmental plans, and SEP and SIMPLE IRAs — do not receive non-bankruptcy creditor protection under federal law, though they are fully protected from bankruptcy under the Bankruptcy Code. (Outside of bankruptcy, general creditor protection is based on state law.)

IRAs and Rollovers

Traditional and Roth IRA contributions and earnings are protected from bankruptcy up to $1,362,800 per person until April 1, 2022. This limit is for all accounts combined and is adjusted for inflation every three years. Rollovers from employer plans, including SEP and SIMPLE plans, do not count against this cap. However, the U.S. Supreme Court ruled unanimously that IRA assets inherited by nonspouses are not protected under the Bankruptcy Code.

General creditor protection for traditional and Roth IRAs is based on state law, as it is with SEP and SIMPLE IRAs. So, account owners should carefully consider their own state's general creditor protections before rolling fully protected ERISA plan dollars into an IRA. Those who change jobs should remember they may have two other options: leave savings in the former employer's plan or transfer them to a new employer's plan, if allowed. Unfortunately, retirement account withdrawals and pension benefits paid as income are no longer protected from bankruptcy, so creditors may wait patiently and stake a claim to retirement funds after they are withdrawn.

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