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Soft Landing Recession?

Dear Friends January 2023

Happy New Year to all of you. And as of this writing it's been a pleasant beginning in the markets. In fact, the fourth quarter of '22 was pretty good for all the major indexes. When I wrote the last letter in October, concern among clients was somewhat elevated. Sometimes concern, fear, or even a little panic is what it takes to get the sellers out so the market can move forward. On the other hand, maybe it's just a bounce. I'm uncertain.

Uncertainty seems to be everywhere on and "in" Wall St. these days. In recent meetings with sophisticated, smarter than me, people I'm hearing that some of the stickier areas of inflation will moderate. Others say inflation is going to be around for a while. I've heard we'll have a mild recession. I've heard we'll have a soft landing thus avoiding a recession. Then, in early December I heard a term I've never heard before. "Softlandingrecession". I asked for clarification on his base case, soft- landing or recession? He clarified it by saying "soft landing recession". I was speechless.

When I ask pointed questions, a few things seem clear. First, the consumer is in good shape and continues to spend. The pandemic cash people received is largely gone but credit card balances are rising. The Fed is trying to curb this. This is something to keep an eye on. Second, although I think inflation will continue to moderate, with the level of sickness in China, and major disruption of the Chinese economy possible, we shouldn't get too optimistic on inflation too soon. China makes a lot of goods that end up in the United States. I still think inflation settles in around 4%.

If you look at the January 2022 letter my focus was inflation and interest rates. They're still a concern. The consensus today seems to be a mild recession in the latter half of this year. The consensus is often wrong and that concerns me. (Remember they told us inflation would be transitory) If the consensus is wrong again the other options are no recession or something worse than a mild recession. Now, my focus is on, and I want to be prepared for, something worse than a mild recession.

When I talk to clients and contacts that live, and run businesses, in the real world I don't hear as much concern or uncertainty. I think they lean optimistic. That said, all signs point to an economic slowdown.

My friend and client who moves vegetables around the world by the ton tells me last year was pretty good. The local agriculture firms are still dealing with shipping issues and costs. He was feeling like a lot of supply would be coming to market and prices in his products would soften. He said these storms add a lot of uncertainty to his market, however.

In real estate a client who has decades in the business as an agent, investor and hotelier says, "the higher end cash buyers are still there but higher interest rates have had an affect on the middle and lower end." More importantly, she sounded happy. She said this is a nice change compared to the last few years.

Construction is mixed but everyone seems to be staying busy. Higher end contractors that build the whole house are doing quite well. A friend and client that does more specialized work on commercial properties feels like this year will be pretty good. Elsewhere, a contact who is a plasterer said he was laid off but has been able to pick up a lot of side work in the meantime.

Finally, from the oil patch a client tells me companies seem more willing to invest money in projects, more rigs are being used than they were a year ago and there is less red tape to get projects going. He thinks oil will settle in somewhere between $60-$75 per barrel.

Unfortunately, there wasn't a lot of compelling reading this past quarter. Rather than send something stale or un-insightful I've enclosed a paper I wrote on healthcare costs in retirement. Since I have a lot of clients between the ages of 62-65 that will soon utilize Medicare, I felt it could help answer some questions. A special thank you to my Advanced Planning team at Commonwealth who did all the heavy lifting at fact checking for the paper but especially Maureen Baxter.

I get requests from clients to forward these letters to friends and acquaintances. To make it easier I've started posting them to my website antonemercurio.com. You can find them under the Quarterly Client Newsletter tab. If you'd like to view the letter on the website, or prefer to not get the letter, let me know and I will take you off the list.

My best wishes for a prosperous and healthy year.

Sincerely,

Antone Mercurio, CFP®
Investment Advisor

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Economic forecasts discussed here may not develop as predicted

Paying for Healthcare in Retirement

During meetings with clients, I get a lot of questions about Medicare, and healthcare costs in general, in retirement. It seems there is a lot of confusion about what Medicare covers and doesn't cover. Over the years I've found that healthcare is one of the biggest costs facing today's retirees. Many people underestimate these costs and believe Medicare will cover most expenses.

Known and Unknown Costs

First, there are known costs. Things such as Medicare, medigap and long-term care insurance premiums. When we sign up for long-term care insurance or Medicare, we are told upfront what our monthly premiums will be. People can budget for these items.

Unknown costs are little trickier. These include Medicare co-pays, out of pocket costs, uncovered prescription costs, dental and vision costs, and long-term care costs. These costs depend on various factors.

Factors That Affect Healthcare Costs in Retirement

Healthcare costs, like everything else, are affected by inflation. Over the years healthcare costs have outpaced not only the rate of inflation but Social Security increases too. This means they go up faster than most things.

Another factor is longevity. Healthy people generally live longer resulting in more years of healthcare expenses. Also, it seems counterintuitive but because healthier people live longer they require long-term care services more frequently than unhealthy people.

Below is a grid discussing the different parts of Medicare, what's covered, and the costs.

What does Medicare cover, and how much does it cost?		
Medicare Details	What's Covered	What it Costs
Part A (hospital insurance)	• Inpatient hospitalization • Short-term skilled nursing facilities	• Generally, no premiums • Yearly deductible • Co-pays
Part B (medical insurance)	• Doctor services • Preventative services • Durable medical equipment • Outpatient services	• Monthly premiums • Yearly deductible • Co-pays • IRMAA surcharge for higher income beneficiaries
Part D (prescription drugs)	• Plans offered by private insurance companies approved by Medicare • Covered drugs vary by plan	• Monthly premiums • Yearly deductible • Co-pays • IRMAA surcharge for higher income beneficiaries

What does Medicare cover, and how much does it cost?		Continued
Medicare Details	What's Covered	What it Costs
Part C (Medicare Advantage)	• Offered by private insurance companies approved by Medicare • Includes Part A and B • Most plans include Part D • May cover hearing, dental and vision	• Monthly premium for Part B • Deductible and co-pays
Medicare Supplement (Medigap plans)	Covers expenses not covered by Medicare, including co-payments, coinsurance, and deductibles Although Medigap policies are optional, you must have Medicare Parts A and B to purchase Medigap policy	• Actual cost varies by carrier, age, and geography

Monthly Medicare Premiums	
Part A	$0 (Assuming client or client's spouse has at least a 10-year work history with payment to Medicare taxes)
Part B	$164.90
Part D (nationally based premium)	$34.71 (This is the 2020 national benchmark premium)

Medicare premiums are assessed at the end of each year. Usually, at that time, the most recent tax return is from two years prior. For example, when assessing income for 2023 premiums at the end of 2022 the most recently filed income tax return is for 2021. For single, and married, income tax filers with incomes above a certain threshold an Income Related Monthly Adjustment Amount (IRMAA) is added to their Part B and D. So, people with higher incomes may have higher Part B and D premiums. The amount of the IRMAA surcharge changes yearly.

Medicare Prescriptions Drug Plans

Part D has 4 phases: (1) annual deductible; (2) initial coverage; (3) coverage gap; (4) catastrophic coverage. Medicare recipients will proceed to the next phase when their prescription drug costs meet certain thresholds.

In 2023, the annual Part D deductible is $505.00. If Part D plan doesn't have a deductible, a recipient would skip the initial coverage phase.

The coverage gap is commonly known as the "donut hole". Before the Affordable Care Act (ACA), recipients may have had to pay the full cost of their prescription costs after the initial coverage phase but before reaching the catastrophic limit. The ACA closed the donut hole. Now, once a recipients prescription drug costs exceed the initial coverage limit and the recipient enters the coverage gap phase, they will pay 25% of the prescriptions cost. In 2023, recipients will reach the 4th phase, the catastrophic coverage phase, when their out-of-pocket prescription costs exceed $7,400.

Medigap

Medigap is a Medicare supplement insurance policy sold by private companies. Medigap can help recipients pay some of the healthcare costs that Medicare doesn't cover, such as copayments, coinsurance, and deductibles. Medigap premiums can vary greatly depending on where a person lives, the carrier and the plan.

Out of Pocket Costs

When it comes to healthcare costs in retirement, premiums are just part of the picture. Although Part A has no premium, deductibles and copayments for hospital stays can be expensive.

And for stays in skilled nursing facilities, recipients will face the following costs:

Day 1 – 20	No Cost
Day 21 – 100	Coinsurance cost of $200 per day
Day 101 and beyond	Recipients are responsible for all costs (there is no custodial care)

Below are some national annual median rates for long term care:

Home health care	$ 61,766
Adult day care	$ 20,280
Assisted-living facility	$ 54,000
Nursing home (semiprivate room)	$ 94,900
Nursing home (private room)	$108,405

Given the potential cost of long-term care one option to mitigate the risk is to purchase long term care insurance. The premiums vary based on age, gender, state of residence, health, and coverage levels. According to the Association for Long Term Care Insurance, the average annual premium for a 55-year-old couple is $3,050.

Bottom Line

Health care costs are high and must be factored into your budget and retirement plan.