FARMERS TRUST COMPANY NEWSLETTERS

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Please be sure to check out John Stewart's article, "Earnings Season Underway" below!

How Changing Shelter Costs Influence Inflation

Fast-rising U.S. shelter costs — consisting of tenants' rent and owners' equivalent rent — were the top driver of inflation in 2022, but this may be a trend that has already shifted. Shelter costs account for nearly one-third of the value of the consumer price index (CPI), making them the largest component by far. New rents and home prices both softened in the second half of 2022, but because of the way shelter costs are measured, it could take nearly a year for those changes to be reflected in the CPI.

12-month change in shelter costs (CPI-U)

Source: Bureau of Labor Statistics, 2023 (data through Dec. 2022); *The Wall Street Journal,* December 6, 2022

Earnings Season Underway

Corporate earnings season is underway again as companies report results for 2023's first quarter. As they usually are, the largest financial institutions were first out of the gate to report with the likes of JPMorgan Chase, Citigroup, and Bank of America among others. The initial read has been better than feared; especially given the recent banking turmoil, as most of the early reports have been beating expectations. Keep in mind, however, that expectations have dropped significantly since the beginning of the year. It is actually the norm for analysts to lower earnings expectations as earnings season approaches, thus allowing companies to leap over the lowered bar. It's still too early to draw any significant conclusions from this earnings season yet, but the key will be whether or not the estimates for the second and third quarters decline by more than they did for the prior two quarters, which was a drop of 5.5%. For now, corporate earnings are holding up better than feared, but the majority of companies still have yet to report. Focus less on whether they "beat" expectations, and more on whether their expectations for the rest of 2023 are being raised or lowered.

You know how people talk about how 90% of the game of golf is in between your ears? If you're not familiar with golf, the same can be said for most sports as well as almost any endeavor in life. Investing is no different. It is primarily psychological in nature. It is not so much what you decide to buy that matters (although selecting good investments obviously helps), but how you respond to what happens after the fact.

Most people are psychologically hardwired to make bad investment decisions because they invest emotionally, buying when they feel positive (after something rises in price) and selling when they feel negative (after something falls in price). This results in a money-losing buy high and sell low dynamic. In order to increase your odds of success, create a portfolio that will keep your emotions in check. For many people this means taking less risk. You want to have a portfolio that won't scare you into selling your assets just because the stock market falls by 10%. If you're a risk taker that can handle the pressure, growth-oriented assets will be more volatile, but can result in better long-term returns.

The debt ceiling debate started in January when Republicans took over the House of Representatives and the Treasury reached its statutory borrowing limit. Back then, however, the discussion was a bit premature, as the Treasury had plenty of strings it could pull before effectively running out of money. The original estimate was that the Treasury could use these so-called "extraordinary measures" to hold off on the need to issue more debt until sometime between June and August. We should learn more about this debt ceiling deadline within the next week or so as data regarding tax receipts begins rolling in. In addition, Republicans are expected to have a debt ceiling bill passed in the House by the end of next week. While we believe a deal will ultimately get done to stave off a debt default, the process of getting from point A to point B could get a bit messy. Let the game of chicken begin!

Social Security Offers Benefits from Birth Through Old Age

The bulk of Social Security benefits go to retirees, but Social Security is much more than a retirement program. Most Americans are protected by the Old-Age, Survivors, and Disability Insurance (OASDI) program — the official name of Social Security — throughout their lives.

Current Social Security Beneficiaries

Source: Social Security Administration, 2023

At the Beginning of Your Career

Your first experience with Social Security might be noticing that Federal Insurance Contributions Act (FICA) taxes have been taken out of your paycheck. Most jobs are covered by Social Security, and your employer is required to withhold payroll taxes to help fund Social Security and Medicare.

Although most people don't like to pay taxes, when you work and pay FICA taxes, you earn Social Security credits. These enable you (and your eligible family members) to qualify for Social Security retirement, disability, and survivor benefits. Most people need 40 credits (equivalent to 10 years of work) to be eligible for Social Security retirement benefits, but fewer credits may be needed for disability or survivor benefits.

If You Become Disabled

Disability can strike anyone at any time. Research shows that one in four of today's 20-year-olds will become disabled before reaching full retirement age.[1]

Social Security disability benefits can replace part of your income if you have a severe physical or mental impairment that prevents you from working. Your disability generally must be expected to last at least a year or result in death.

When You Marry…or Divorce

Married couples may be eligible for Social Security benefits based on their own earnings or on their spouse's.

When you receive or are eligible for retirement or disability benefits, your spouse who is age 62 or older may also be able to receive benefits based on your earnings if you've been married at least a year. A younger spouse may be able to receive benefits if he or she is caring for a child under age 16 or disabled before age 22 who is receiving benefits based on your earnings.

If you were to die, your spouse may be eligible for survivor benefits based on your earnings. Regardless of age, your spouse who has not remarried may receive benefits if caring for your child who is under age 16 or disabled before age 22 and entitled to receive benefits based on your earnings. At age 60 or older (50 or older if disabled), your spouse may be able to receive a survivor benefit even if not caring for a child.

If you divorce and your marriage lasted at least 10 years, your former unmarried spouse may be entitled to retirement, disability, or survivor benefits based on your earnings.

When You Welcome a Child

Your child may be eligible for Social Security if you are receiving retirement or disability benefits, and may receive survivor benefits in the event of your death. In fact, according to the Social Security Administration, 98% of children could get benefits if a working parent dies.[2] Your child must be unmarried and under age 18 (19 if a full-time elementary or secondary school student) or age 18 or older with a disability that began before age 22.

At the End of Your Career

Social Security is a vital source of retirement income. The benefit you receive will be based on your lifetime earnings and the age at which you begin receiving benefits. You can get an estimate of your future Social Security benefits by signing up for a *my* Social Security account at socialsecurity.gov to view your personal Social Security statement. Visit this website, too, to get more information about specific benefit eligibility requirements, only some of which are covered here.

1-2) Social Security Administration, 2022

How Much Should a Family Borrow for College?

There is no magic formula to determine how much you or your child should borrow for college. But how much is too much?

Starting Salary Guideline

One guideline is for students to borrow no more than their expected first-year starting salary after college, which, in turn, depends on their specific major and/or job prospects. But this is not a hard-and-fast rule.

Student loans will generally need to be paid back over a term of 10 years or longer, and a lot can happen during that time. For example, a student's assumptions about future earnings might not pan out; other costs for rent, utilities, and transportation might consume a larger share of the budget than expected; or a borrower might leave the workforce for an extended period to care for children and will not earn an income during that time. There are many variables, and every student's situation is different.

Federal Student Loan Limit Guideline

To build in room for the unexpected, a more conservative strategy could be for undergraduate students to borrow no more than the federal student loan limit, which is currently $27,000 for four years of college. Over a 10-year term with a 4.99% interest rate (the 2022-23 rate on federal Direct Loans), this equals a monthly payment of $286. If a student borrows more by adding in private loans, the monthly payment will jump, for example to $477 for $45,000 in total loans (at the same interest rate) and to $636 for $60,000 in loans. Before borrowing any amount, students should know *exactly* what their monthly payment will be after graduation. Keep in mind that only federal student loans are eligible for income-based repayment options, as well as temporary loan deferments.

Note: These hypothetical examples of mathematical principles are used for illustrative purposes only and do not represent the performance of any specific investment.

As for parents, there is no one-size-fits-all rule on how much to borrow. Many factors come into play, including the number of children in the family, total household income and assets, and current and projected retirement savings. The goal, though, is for parents to borrow as little as possible, either in their own names or by co-signing loans.

Ideas to Trim Costs

To help avoid excessive borrowing, here are some ways students might try to reduce college costs: pick a school with a lower net price (a net price calculator on a college's website will show the net price); consider in-state colleges; aggressively seek out need-based and merit aid; graduate early; attend community college for a year or two and then transfer to a four-year college; live at home or become a resident assistant to get free housing; and work part time throughout college and budget wisely.