Personal Finance Year in Review Webinar Questions

Answered by Dr. Barbara O'Neill, CFP®, AFC® boneill@njaes.rutgers.edu

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1. Re: Inflation: If CPI rates are coming, why are prices not coming down? What is the relation of one to the other?

Unfortunately, there is no direct relationship between the Consumer Price Index (CPI), which measures the rate of change in prices over a 12-month period (e.g., 2.7% from 11/23 to 11/24), and prices themselves (e.g., housing, child care, cars, food, and insurance). Therefore, even though inflation has cooled somewhat, many prices themselves have not gotten lower for a variety of reasons (e.g., rising labor and material costs, natural disasters, supply and demand issues). This is especially hard for young adults, who never experienced the aftermath of inflation before, to see prices not return to where they were previously. In addition, inflation "bubbled up" several times in 2024, reversing the CPI's downward trajectory.

2. Re: the National Association of Realtors (NAR) settlement… does that mean that commissions will remain standard UNLESS a buyer negotiates it? What does this mean for finding a reliable realtor?

The NAR settlement that went into effect on August 17, 2024 eliminated the standard 6% commission and sellers are no longer required to automatically pay a commission to the buyer's agent as part of a listing agreement. As a result, sellers may avoid having to pay for a buyer's agent and keep more profit from the sale of their home for themselves. Homebuyers could still ask for concessions from sellers, however, and sellers may agree if they need to move quickly or the housing market is slow. Buyers now have more control over the agent that they work with and their compensation. Home buying and selling has ALWAYS required negotiation and now even more so. To find a reliable realtor, consumers can ask for personal referrals from friends and family or search websites like Realtor.com, Zillow, and the local multiple listing service (MLS).

3. As the mortgage interest rates come down, do you think we will find people who are more willing to move and/or buy other homes if refinancing at a lower rate will enable them to have more income to work with?

Yes, but it will take some time. Remember, about 60% of current homeowners with mortgages have interest rates below 4% and, as of 12/19/24, the average 30-year fixed mortgage rate was 6.72% (5.97% for 15-year mortgages). That is a big difference, which is contributing to the "rate lock effect" (sellers staying put) and a housing stock shortage. Eventually, as market interest rates for mortgages get closer to homeowners' current interest rates, they may be more likely to sell.

4. For clarification… the U.S. Savings rate based on disposable income, is this based on net income (after taxes)?

The U.S. personal savings rate, published by the Bureau of Economic Analysis (BEA), is calculated by dividing personal saving by disposable income in a series of steps as follows: 1. Start with personal income, 2. Subtract personal taxes, 3. Subtract personal outlays (i.e., expenses), and 4. Divide personal savings by disposable personal income. Disposable personal income is the portion of people's incomes left after they pay taxes and spend money. For more details on the BEA personal savings rate formula, see https://www.bea.gov/data/income-saving/personal-saving-rate and https://www.bea.gov/news/blog/2017-08-21/measuring-how-much-people-save-inside-look-personal-saving-rate

5. Have you seen an increase in people choosing to lease a car instead of buying?

Leasing made a comeback in 2024 and now accounts for 25% of new vehicle purchases, up from 17% during COVID era inventory shortages. SUV vehicles dominate vehicles being leased and EV leasing is growing. For more information, see https://www.cbtnews.com/affordability-and-leasing-trends-dominate-q2-2024-melinda-zabritski-experian/

6. Regarding Taxes: What was the purpose of requiring the 10 year requirement? CONTEXT: Under final SECURE act regulations: non-spouse beneficiaries must take RMDs annually during 10-year payout period if account owner died on or before RBD; 2020-2024 penalties were waived for missed RMDs.

Tax-deferred retirement savings plans, by definition, are meant to delay taxes on account earnings, typically until later life. Congress and the IRS know that many account owners, especially "super-savers" with $1 million + balances, will die and leave money in their plans. Prior to passage of the first SECURE Act in 2019, non-spouse beneficiaries could stretch their required minimum distribution (RMD) withdrawals over their life expectancy (e.g., a "stretch IRA"). Now they have 10 years to withdraw inherited funds. With the 10-Year Rule, the U.S. Treasury gets non-spouse beneficiaries' money faster. Instead of having to wait for a life expectancy of, say, 40 to 80 years (e.g., young grandchild), they get it within a decade.

7. **Retirement Planning for Young Adults: → How does this affect the young adults who are recipients of retirement/inheritances such as the Survivor Benefit Plan (SBP)? CONTEXT: Clarity for young adults inheriting retirement accounts (with last year of waived penalty for missed RMDs) BUT beneficiaries must start taking annual distributions in 2025. If parent died in 2022, must drain account by Dec 31, 2032.**

The part of the 10-Year Rule that was finalized in 2024 applies to required minimum distribution (RMD) withdrawals from tax-deferred accounts (e.g., traditional IRAs, 401(k)s, TSP) required of non-spouse beneficiaries (e.g., adult children). Non-spouse beneficiaries must now take RMDs annually during the 10-year payout period following the account owner's death if the account owner died on or before their required beginning date (RBD), which is April 1 of the year following the year that the account owner turned 70½, 72, or 73 (depending on birth year).

The 10-Year Rule is very different than rules for inheritances and SPB benefits. It is like comparing apples and oranges. If someone receives an inheritance (e.g., inherited stock in a taxable account via a will or from life insurance proceeds), there is no tax required (note: earnings on inherited stock received with a stepped up basis would be taxable going forward). SBP benefits (i.e., military survivor retirement benefits that provide a taxable annuity to eligible beneficiaries) have their own set of rules (see https://militarypay.defense.gov/Benefits/Survivor-Benefit-Program/Overview/).

8. **How does "Spaving" work? → Spending money to save money?**

Some common examples of "Spaving," where shoppers have to spend money to save money and often spend more money buying more items than they need to, include the following:

- BOGOs: buy one item, get one free
- Buy one full price item, save 50% on the second item.
- Reaching a certain spending threshold (e.g., $50) to qualify for free shipping
- Buying items in bulk to get a significant amount of savings
- Tiered loyalty programs where shoppers get better rewards when they spend more.

9. **How does the Flexible Spending Account (FSA) pre-tax earnings affect taxes later when/if the FSA account is cancelled? What happens to the funds that aren't carried over for FSA accounts?**

When a Flexible Spending Account (FSA) is cancelled, any unused funds in the FSA at the time of cancellation are typically forfeited to the employer (the so called "use it or lose it" rule). Workers are not taxed on forfeited funds because they never became taxable income. Forfeited funds cannot be used or claimed as a tax deduction. In other words, workers lose that money. Therefore, it is wise to spend down the FSA account balance on qualified expenses (e.g., over-the-counter products, at a drug store, glasses or contact lenses, elective medical procedures) before cancelling the account, if possible. For more information about how FSAs work, see https://www.healthcare.gov/have-job-based-coverage/flexible-spending-accounts/ Finally, it is always wise to check with your employer or FSA plan administrator for specifics, as plan details can vary.