RAA
THE COMPASS
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WELCOMING FALL AT RAA

By Kat Schraeder, CFP®
RAA Vice President

I love fall! The changing colors, cooler weather, football games, and kids back in school in a set routine are some of the best highlights. My weekends and evenings are filled with soccer practice, football practice, 4-H meetings, and excitement over homecoming activities. I love seeing families, including grandparents, gathered at these different events and I know despite the very real struggles our society faces, that the fabric of our American way of life is alive and well.

With the change of the season, also comes a very busy, rewarding time in the office. We start with one of RAA's largest volunteer events of the year. Every year we get the opportunity to help with Women in Aviation International's event, *Girls in Aviation Day*. This year, I had the pleasure of serving as the North Texas Women in Aviation outreach chair.

In this role, I was able to help coordinate bringing nearly 1,000 participants to share all aspects of aviation and aviation careers with girls ages 8 to 18. Many of the RAA team members volunteered their time on a Saturday to help inspire this next generation. A highlight of mine of the day was reconnecting with astronaut Wally Funk and listening to her share about her dream of going to space being realized.

Our team also attended the Reno Air Races and Tailhook, and later this month we will be attending and speaking on financial planning issues at RTAG (Rotary to Airline Group) and FAST (Female Aviators Sticking Together).

All these gatherings allow us to truly engage and interact with clients and future clients, as well as gather real-time feedback on what is happening in the industry, and what we can do to help with financial planning around these activities.

Speaking of planning, the end of the year is one of our busiest times to make sure all financial planning is in place. Our advisors are pouring through the latest company benefits to ensure the advice we give on open enrollment is accurate and timely.

Many changes have occurred with Medicare and Medicare plans over the last two years, and we encourage you to review your coverage to make sure you are on the best plan. We are also processing Required Minimum Distributions, annual tax withholdings, and calculating Roth conversions. If you have not spoken with your advisor about these important year-end planning topics, please reach out and schedule a review.

As fall quickly moves into the holiday months, I wanted to thank you for the trust and confidence you place in us. We are here to ensure that each of our clients receives the financial guidance they need to plan and live out a rich and meaningful life, and we are honored to walk with you on your journey.

7 REASONS WHY YOU SHOULD NEVER BORROW FROM YOUR 401(K)

Most people are worried about money right now, and millions are having trouble paying their bills. Even if you still have your job, it's possible your partner or spouse does not.

When cash is short, it's tempting to make a beeline to the savings in your 401(k), but we would strongly recommend against it. We've been in this business for a long time, and understand that if you're at the point where you are considering borrowing from your retirement account(s), you might think you have no other choice. But, that decision has some not-very-well-understood (but substantial) consequences.

Here are 7 reasons why your 401(k) needs to be protected at almost any cost.

1. The cost of lost opportunity

When you borrow from your 401(k), the amount you withdraw will no longer be earning an investment return. If your 401(k) typically averages an 8 percent annual return, that means you are losing out on thousands of dollars each year.

That's an expensive loan.

2. Repayment isn't a 1-to-1 ratio

When you borrow from your 401(k), while you are borrowing from yourself, repayment isn't anywhere near a dollar-for-dollar exchange. That's because you built your 401(k) with pre-tax money, but you pay it back with after-tax money.

Here's an example: If you're in, say, the 32 percent tax bracket, that means that for each $1 you get paid, you only have $.68 left over for repayment. In a sense, to repay each $1 you borrow, you must work 32 percent more than you did to build that account up in the first place.

3. It's likely you'll contribute less to your 401(k) while repaying a loan

What we typically see with people who take loans from their 401(k) is that the money they were contributing before the loan is now devoted to the repayment of the loan.

Let's say each month you put 10% of your pre-tax income into your 401(k). If you take a loan, those loan repayment amounts, coupled with your usual 10% pre-tax contribution, might combine to total too much lost take-home pay for you (especially if one spouse is out of work) to keep contributing. Our experience has been that most of the people who take a loan end up adjusting their contributions down.

And, even if you can afford to continue to contribute, some 401(k) plans have a provision that won't allow you to make contributions until after everything you've borrowed is repaid.

4. You're risking your retirement

Your 401(k) is intended to help pay for retirement. But did you know that, due to poor health, or to care for a loved one, 50 percent of all people are forced to retire earlier than planned?[1] Simply, you may not have as much time left in your working and earning life as you might believe, and that makes taking a loan on your 401(k) a risk you should avoid.

Your 401(k) is almost certainly your largest retirement savings vehicle. If you have a big loan balance, and you are forced to retire, those assets won't be there when you really need them.

5. If you can't pay the loan back, it becomes a withdrawal

This is where things get messy (and expensive).

According to the Wharton Pension Research Council, 10 percent of people who take a loan from their 401(k) are never able to pay it back, meaning the loan becomes a withdrawal. That makes the loan amount subject to a tax bill at your regular income tax rate, plus, for those people under 59½, you'll be hit with an additional 10 percent early withdrawal penalty.

6. If you lose your job, the repayment schedule resets

If you permanently lose your job (or you quit), and you have an outstanding balance on a loan from your 401(k), you'll only have until your next federal tax return is due to repay the full amount (and not the five years that most plans allow).

Obviously, most people who are considering borrowing from their 401(k) don't have $20,000, $30,000, or $50,000 lying around to pay off the loan in a lump sum.

7. It's your "last resort" emergency fund and it's legally protected from creditors

Some people might have absolutely no other choice than to tap into their 401(k) in an emergency.

Every other option, including home equity lines of credit, second mortgages, other types of loans, and even using your health savings account, should be evaluated with your advisor before making such an important move.

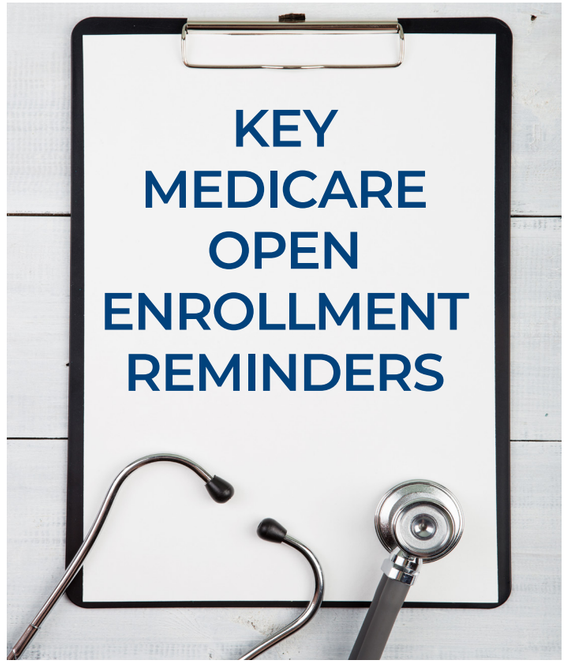
Bankruptcies are on the rise, and it's important to remember that your 401(k) is protected from creditors, while your other savings and many of your assets aren't. That alone should give you pause about borrowing from your retirement instead of from a bank.

So, for all these reasons and more, we strongly encourage you to avoid borrowing from your 401(k), despite how much you may need cash.

There are other, less risky ways to get what you need. And when you are comfortable in retirement, you'll be grateful you allowed your account to grow without potentially harmful setbacks.

However, we understand that everyone may have a unique circumstance. If you find yourself in a situation where you are questioning whether or not you should withdraw from your 401(k), please reach out to your advisor. We can discuss your options and what will work best for you. We are here to help!

Source: AARP, New Study Finds Many Older Workers Forced Out of Jobs



The window for Medicare Open Enrollment has now arrived, and health care coverage is one of the most important factors in your overall financial stability. While it's difficult to cover all the contingencies associated with signing up for and changing your Medicare coverage, here are some enrollment basics that everyone should know.

Open Enrollment for Medicare runs from October 15th until December 7th.

Medicare Open Enrollment runs from October 15th through December 7th each year. This window allows you to re-evaluate and, if you so choose, to alter or upgrade your drug and Medicare coverage. Any changes you make to your coverage during the Open Enrollment period will take effect January 1st, 2022.

Here are some things you can accomplish during the Medicare Open Enrollment period:

You can:

- Change from Original Medicare to Medicare Advantage (with restrictions)
- Change from Medicare Advantage to Original Medicare (with restrictions)
- Move from one Medicare Advantage plan to a different plan
- Switch from one Medicare Part D drug plan to another
- Sign up for a Medicare Part D plan (if you didn't sign up when you were first eligible)

There are a few things that you can't do during the Medicare Open Enrollment period.

For instance, Medicare Open Enrollment does not cover Medigap plans, as the rules governing these plans vary by state, and so those have their own unique enrollment periods and regulations. Also, if you decided not to sign up for Medicare when you were initially eligible, you aren't allowed to use the fall (October 15th through December 7th) period to sign up.

Initial Enrollment Period

Your Medicare Initial Enrollment Period starts three months before you turn age 65, includes the month of your 65th birthday, and then runs for three months after your birthday month.

The good news is that's seven full months to sign up for Medicare. The bad news is, if you fail to sign up, you could be hit with a late enrollment penalty.

Medicare General Enrollment Period

The Medicare General Enrollment Period is for those individuals who didn't sign up for Medicare during their Initial Enrollment Period, and who aren't eligible for any other special enrollment (see below). This period runs from January 1st to March 31st each year.

Special Enrollment Period

You may qualify for the Special Enrollment Period if you missed the sign-up for your Initial Enrollment Period because you were still taking part in a healthcare plan sponsored by your (or your spouse's) employer, or because you have a disability.

You may qualify to sign up for Original Medicare during an eight-month period that begins:

- The month after your employment ends
- The month after your group healthcare plan ends

Commonly Asked Questions

A commonly asked question for those who are nearing age 65 is, "Will I have to sign up for Medicare each year, or will it just continue throughout my retirement?"

The answer is that once you've signed up for Original Medicare (or Medicare Advantage, Medigap, or Part D coverage), you won't ever have to sign up again. But, you should still evaluate your coverage every year to ensure it makes sense for your situation.

As always, if you have any questions about Medicare Open Enrollment, please call us. We are here to help.

PREPARING FOR MEDICARE SHOPPING WORKSHEET

It can be difficult to compare all of the Medicare solutions that will fit your unique needs. To aid in this process, we've created a "Preparing for Medicare Shopping Worksheet". **To view the worksheet, visit www.RAA.com/MedicareWorksheet.**

The worksheet will help you create a convenient list of your doctors, prescriptions drugs, and current policies to help shop and compare plans. Keep in mind that if you like your doctors and need your current prescriptions covered, then it's best to include them in your search criteria.

If you have any questions about Medicare, Medicare Open Enrollment, or the Medicare Worksheet please reach out to your advisor.

OPEN ENROLLMENT FOR AIRLINE EMPLOYEES

Now is one of the most important times of the year for you as an airline employee when it comes to your benefits.

Open enrollment is available only one time per year and is a key part of your overall financial planning strategy. During this period, you'll be asked to make pivotal choices regarding your medical coverage, dental coverage, disability coverage, 401(k), and more. Making the best elections for your family can significantly impact your financial future. It is important that you make any changes, if needed, during the enrollment window to ensure your benefit elections meet your specific needs. Below are some key questions to consider during this year's open enrollment:

- Did you know that there are ways you can reduce your current year's taxes and spend that money during retirement tax-free in addition to your 401(k)?
- Have you reviewed your benefits recently?
- Do you know what your income would be if you went on long-term disability?

If any of your answers to the above questions are "no", then we encourage you to contact your advisor to discuss your open enrollment options.

Watch Our New On-Demand Webinars

We've just launched brand-new, on-demand webinars dedicated specifically to reviewing 2022 benefit options for various airlines. They are free, educational, and will outline more open enrollment 'must knows.' **If you're interested in watching any of these webinars, visit www.RAA.com/Webinars.**

MARKET UPDATE

By Andy Stout, CFA, CFP® - Chief Investment Officer

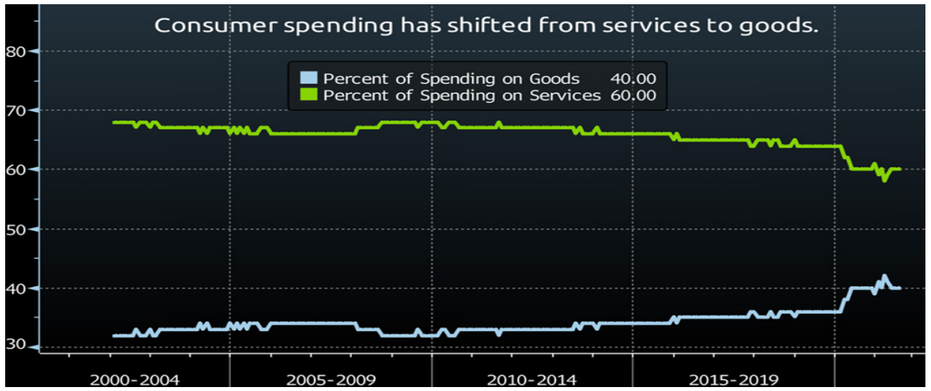
I've never been one for cliffhangers, so let's get right to the point: It's likely elevated inflation is here to stay until at least the middle of next year.

And with that out of the way, let's dive right into what has changed over the past few months, what that could mean for the economy, and what that might mean for the markets.

What's Changed?

1. The Supply Chain

A primary driver of the supply chain problems that gets little-to-no attention is that consumer spending behaviors have changed. Since 2002, when the data series began, consumers, on average, spent 34% of their total spending on goods. Then the pandemic hit, and since March 2020, that has soared to 40%.



While this might appear insignificant, it's far from it, as we're talking about billions of redirected dollars. More specifically, the annualized spending on goods in February 2020 was about $1.8 trillion. That spending has now risen to $2.1 trillion. In other words, this shift has contributed an additional $300 billion in spending on goods. This influx of goods is a big part of the port backlog because the shift happened almost immediately, which didn't allow time for any logistical updates.

More than 60 ships are sitting off the coast of Southern California, holding about 200,000 large shipping containers. While the backlog has improved from about a week ago, when roughly 100 ships were waiting to unload, we are still nowhere near a typical operating environment.

Part of the reason for this improvement is that the ports are now operating 24/7. However, a shortage of truck drivers means those ports can't get the goods on the road as quickly as possible. The shift in spending patterns and other supply chain problems mean that demand is up and supply is down. Classic economics tells us this is a recipe for higher prices.

Of course, other factors affect the supply chain, such as a lack of raw materials and factories not operating close to standard capacity due to various COVID-19 issues. Unfortunately, a recent survey of economists showed that most don't expect the supply chain disruptions to get much better until at least the second quarter of 2022.

2. Inflation Sources

Looking back just a few months to June, consumer inflation (CPI) sources have moved from primarily temporary to slightly more permanent. Transitory sources comprised about 66% of the increase in the month-over-month change in the June CPI report. But now, about 80% of the change in CPI is due to basic necessities.

For example, this table shows that the temporary inflation sources from a few months ago have declined, while other sources have remained elevated. To be fair, food and beverage inflation is highly volatile, but consumers are undoubtedly feeling the pinch. Even though the increase in shelter prices (housing and rent) appears minimal compared to the other sources below, it's not, as shelter accounts for about a third of total CPI.

The monthly change in inflation shows a move away from temporary sources.

CPI Product Type	June	July	August	September
↘ Airline Fare	2.7	0.6	-10	-6.9
↘ New and Used Motor Vehicles	6.3	0.7	-0.5	0.1
→ Shelter	0.4	0.4	0.2	0.4
→ Food and beverages	0.8	0.7	0.4	0.9

3. There Are Myriad Other Reasons

We've covered two of the more significant issues, but plenty of other drivers are behind the change in inflation expectations over the past few months:

Energy: Rising gasoline and electrical costs are two areas where consumers are burdened by inflation. Gasoline prices are directly related to oil, which has soared more than 60% this year to over $80 per barrel. Part of the reason for this is that oil producers aren't generating as much oil as possible. OPEC+ (Organization of the Petroleum Exporting Countries plus Russia) has not increased oil production to the level many analysts hoped. Also, President Biden asked US oil producers to increase output, but they're reluctant to because of the adverse regulatory environment.

Electrical costs affect consumers because fossil fuels are responsible for 60% of electricity generated in the US (~40% from natural gas + ~20% from coal). On a year-to-date basis, coal prices are about 180% higher, while natural gas has roughly doubled.

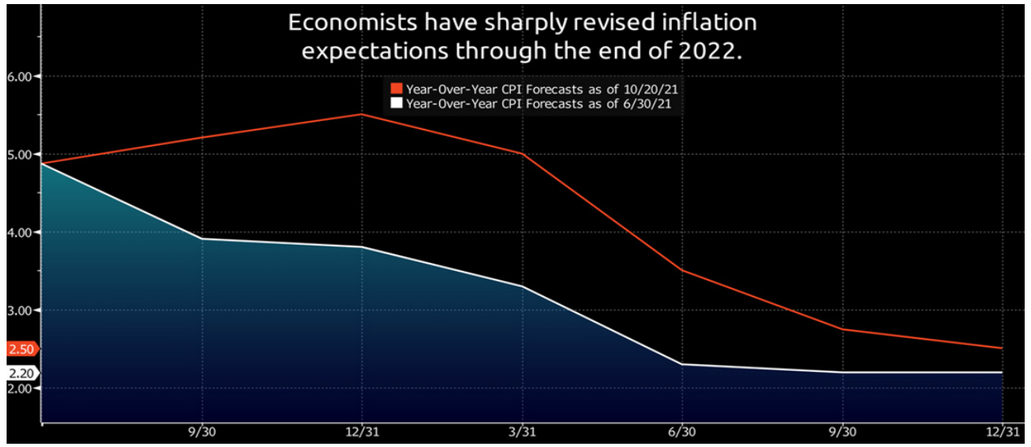
Labor Shortage: There are 10.4 million job openings in the US, significantly more than the 7.7 million unemployed people. The phenomenon of more job openings than unemployed is relatively new, occurring for the first time in 2018. However, the current gap is the largest ever. Even with the federal government ending the extra $300 in weekly unemployment benefits, there hasn't been a surge of workers into the labor force. This gap is causing employers to pay more for labor than they want. For example, McDonald's and Chipotle upped their average hourly wage to $15 per hour. Some employers are limiting their hours of operation if they can't find workers.

For example, this week I received an email from my vet explaining why they were temporarily reducing their hours.

Stimulus: At the onset of the pandemic, the government flooded money into the economy to keep it afloat. It now seems probable that Congress will soon pass a stimulus package of about $2 trillion, resulting in increased spending. Unfortunately, this spending has the potential to push prices even higher.

How have inflation expectations changed?

Many economists expected inflationary pressures to ease near the end of this year. However, those views have shifted because of the reasons discussed above.



It's not just economists that have updated their outlook. The bond market also has. This new view can be observed by analyzing inflation breakevens. Simply put, inflation breakevens are what the bond market expects CPI to average over various periods.

These breakevens are pricing a CPI reading of 4.02% over the next 12 months and 3.13% over the next 24 months. We can deconstruct this to see that CPI is expected to be 2.2% for months 13 through 24.

This analysis tells us that, based on today's data, inflation should moderate around the middle part of 2022.

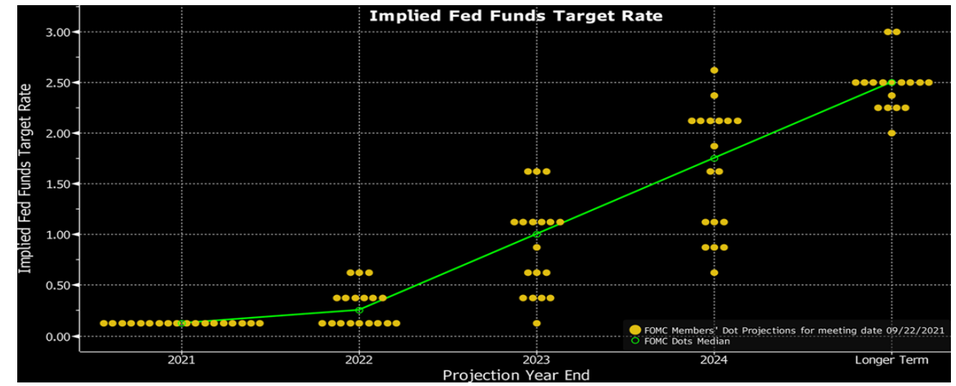
What might the Federal Reserve do given this inflationary backdrop?

Our nation's central bank, the Federal Reserve (Fed), has a dual mandate of stable inflation and full employment. The Fed's September meeting minutes showed that many participants were concerned about rent increases due to higher house prices. As noted above, this is important because shelter makes up about a third of total CPI.

With that in mind, the Fed is on track to taper its quantitative easing program. Near the beginning of the pandemic, the Fed began buying $120 billion of bonds every month to help keep long-term rates low and encourage economic growth. But with millions of people finding work and inflationary pressures bubbling to the surface, the Fed has indicated it will begin to reduce these purchases, possibly wrapping up by the middle part of next year.

Another way the Fed attempts to achieve its dual mandate is by controlling overnight interest rates. The Fed immediately cut rates to zero in March 2020.

Every quarter, the Fed provides its infamous dot plot to help us gauge its intentions when it comes to future rate hikes. The dot plot shows where each Fed member thinks the fed funds rate should be at the end of the upcoming calendar years. Because it's unknown whose dot belongs to whom, the median dot is what many market participants focus on to gauge the Fed's potential plans. For example, the update in June suggested no hikes in 2022 and two by the end of 2023. However, the September dot plot shows one hike next year and a total of three by the end of 2023.



We can observe the pace of rate hikes the market expects by studying fed fund futures. These instruments imply there is a 74% chance of two rate hikes by the end of 2022. Further, there is about a 90% chance of four rate hikes by the end of 2023 (this includes 2022).

How might inflation impact the markets?

A nuanced understanding of economic reaction functions is necessary because markets will be influenced by more than just inflation. Investment textbooks state that interest rates could rise and value stocks could outperform growth stocks in an inflationary environment.

However, the key is not just knowing where inflation is today, but it's about having a view and understanding if that's different from what the market is expecting. If one believes what's already priced in (see inflation breakevens above), then there's no reason to tilt your investment mix in any direction. But, if you believe inflation might be hotter or colder than expected, then changes to your portfolio should be considered.

All data unless otherwise noted is from Bloomberg. Past performance does not guarantee future results. Any stock market transaction can result in either profit or loss.

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RAA
15725 Dallas Parkway, Suite 220
Addison, TX 75001

THE COMPASS

visit us at
raa.com
or call us at
800.321.9123