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What Is Really Going On With The Federal Reserve And Interest Rates (and what it means to you)

By Thomas Shultz

If you were waiting to hear something new from the Federal Reserve, we have some non-news: *they don't know what they are going to do and interest rates are holding steady at a 22-year-high.* The federal funds target rate stays at 5.25% to 5.5%.

Why? While we've made some progress in bringing inflation down, it hasn't been consistent enough over the last year to warrant a change to rates. Inflation has hovered above the Fed's target rate of 2%. In a statement, the Fed said that it "does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2%."

But they are projecting a more optimistic tone on the economy, noting that, "economic activity has been expanding at a solid

pace. Job gains have remained strong, and the unemployment rate has remained low."

What does that mean for you? Well, first, let's talk about what "interest rates" are and how they work.

So, what do people mean when they talk about "interest rates"? Usually, they're talking about the target federal funds rate, aka the fed funds rate, aka "short-term interest rates."

What's the federal funds rate? By law, banks that accept deposits from people are required to keep a certain amount of cash on hand so people can withdraw money. That amount is called their "reserve requirement" and it's based on a percentage of the total amount of money that people have deposited at that bank.

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APRIL

The Year Is Flying By....
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But the amount of cash a bank has on hand changes as people go about their business depositing and withdrawing their money. If, at the end of the day, a bank thinks they're going to have more cash on hand than they need to fulfill the reserve requirement, they can lend some of their extra to another bank who thinks they're going to come up short. The interest rate banks charge each other on these loans is called the federal funds rate.

The Fed sets a "target" rate

Eight times a year, the Federal Open Market Committee (FOMC) — a group of people from the Fed in charge of setting monetary policy — gets together to decide what the ideal federal funds rate should be, based on how healthy the economy is (more on this in a minute). They can also meet outside their regular eight-meeting schedule if the economy is volatile.

But the FOMC can't just dictate how much banks can charge each other; that happens via negotiation between the two banks in question. So instead, the FOMC sets a **target federal funds rate** between a certain range.

The actual rate banks end up charging one another is called the **effective federal funds rate**. In order to get that into the target range, the FOMC either adds money into the financial system, which increases supply and lowers the effective rate, or they take money out of the system, which decreases supply and increases the effective rate.

So how does the federal funds rate affect you (and the economy)?

The federal funds rate affects how much banks pay to borrow and lend, and so it impacts how much they charge you for other financial

products and causes a ripple effect on other interest rates you might encounter in daily life. That's what makes it a useful tool for the Federal Reserve when it comes to influencing the health of the economy.

Lower rates give the economy a boost

Typically, when the federal funds rate decreases, so do the interest rates paid out on saving products like savings accounts and certificates of deposit (CDs). But it also tends to lower the interest rates you'll pay for debt products like automobile loans, personal loans, credit cards, and most importantly, mortgages.

This makes it less worthwhile to *save* money, and more worthwhile to *borrow* money, which encourages people to **save less and spend more**. So when the economy needs some help, the Fed can lower rates to boost economic activity (aka spending). That's why the Fed lowered rates to zero in March 2020 (and kept them low for so long).

Higher rates help curb inflation

It works the other way too. When the federal funds rate increases, so do the interest rates you can earn on things like savings accounts, and the ones charged for things like loans and credit cards.

This makes it more worthwhile to *save* money, and less worthwhile to *borrow* money, which encourages people to **save more and spend less**. So, when the economy seems like it's growing too fast, which can lead to inflation (sound familiar?), the Fed can raise rates to slow economic activity.

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As a refresher, for two full years, the federal funds rate was set at 0% to help the economy through the COVID-19 pandemic. But then inflation spiked — and stayed elevated. Plus, the job market was still abnormally hot. So, over the past year, they've bumped rates up to the range of 5.25% to 5.5% — at record speeds. Finally, inflation has been slowly cooling off, with minimal effect on the job market, although progress has been undesirably slow.

The Fed's goal for inflation is 2% — but it's currently holding around 3.2%, which means there's a way to go before they feel comfortable making cuts. "We believe that our policy rate is likely at its peak for this type of cycle, and that if the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year," the Fed Chair Jerome Powell said in a recent press conference.

The Fed is now doing a delicate balancing act — keep interest rates elevated too long, and they could do some damage to the economy. But they need to keep them up long enough to rein in inflation.

So, the bottom line on interest rates is when rates go down: borrowing good, saving bad (or less attractive, anyway — saving is never *bad*). Rates go up: saving good, borrowing ... not so much. With inflation being what it is, this rate increase could help cool things off. But as always, it's impossible to know for sure what will happen next.

If you'd like a second opinion on your current portfolio or are getting ready to retire and would like to see what retirement could look like for you, we would love the chance to show you our skills!

Thomas Shultz

CURRENT ANNUITY RATES

APRIL 2024

5.00%

1 Year Fixed Annuity

5.25%

2 Year Fixed Annuity

6.00%

3 Year Fixed Annuity

6.30%

5 Year Fixed Annuity

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CORALYN'S CORNER

Every month, my corner is to keep you updated on changes in our world, AZMedicare101.org, LyfeAdvisors and our family.



March has always been historically one of our busiest months and this year was no different. We continue to be blessed with onboarding lots of referral clients on the financial planning side which keeps me and Bev extra busy!

Thomas is currently in discussions to possibly bring another financial advisor into our practice to help out. We feel like we do a pretty good job of communicating and staying in touch with our clients but Thomas feels we could do much better! At this rate, we will have to move soon as we have kind of run out of space in the office. Not looking forward to that, as moving is such a pain. The good news is we have almost a year left on our current lease so we can kick that thought down the road at least until 2025.

CD rates continue to remain high as the federal reserve can't seem to give the market any real direction on which way they are pivoting, so we will keep taking advantage of these high rates as long as we can. Short term is still better than long term, so that is the direction Thomas will continue to recommend.

We have done more annuities in the past 90 days than I can ever recall before. Payout factors *(that's the percentage of your premium an insurance company will guarantee you in payment each month for the rest of your life)* reached a new record high, and we have been able to get clients in the 8% range, which is just unreal.

Thomas says that for any client with a need for

income in the future, there has never been a better time than right now. Obviously, that all changes once the federal reserve starts to cut rates.

On a personal note, wasn't much pleasure in March other than laughing at Thomas getting one year older *(he turned 44 on March 26th)*. I thought about getting him a gift basket of "Just



For Men" hair dye, but I didn't want to ruin his day.

We didn't get to go anywhere this year for Jackson's spring break, but we were able to sneak away to Flagstaff for 1 day. We drove up after work, visited the Lowell Observatory

(which Jackson had never been to), then grabbed a quick hotel room. To our delight the next morning, there was a pretty big snow storm and Jackson had a blast! On our way back home, Thomas convinced us to eat at his favorite restaurant in Flagstaff, "The Sizzler", which reminds him of Kentucky.

RITA'S REVIEWS

Every month, my husband, mother and I enjoy trying out places to eat. This month we decided to try a recommendation from one of our clients, "Detroit Coney Grill" in Scottsdale....



My husband loves hot dogs and had been trying to get me to try the Detroit Coney Grill for some time. After a recommendation from one of our clients, we stopped in to give it a try.



The founder, Dave Najor, started his food service career in the grocery industry in Detroit. There, he learned the importance of fresh food served right. Dave moved here in 2012 from Detroit and didn't like the coney dogs sold here at various locations. He decided that there needed to be an authentic Detroit Coney dog. He opened the first location in Tempe in 2014 but it closed due to the pandemic, along with a location in downtown Phoenix. The only restaurant still open is on Hayden Road in Scottsdale. The all-beef hot dogs are made in Michigan by the Winter Sausage Manufacturing Co. in Eastpointe. Former Detroiters will recognize their hometown favorites: Better Made Potato Chips, Faygo "pop" which is a favorite soda and Vernor's ginger ale.

The restaurant is set up as counter service where you walk in and order like any other fast-food place but with a great outdoor patio. They are open from 8:00 am to 9:00 pm every day. For breakfast, the menu consists of several varieties of burritos and is served from 8:00 am to 12:00 pm. The lunch and dinner menu consists of a large selection of starters, Coney dogs, burgers and sliders, pitas and subs, salads, and a specialty menu. Their sides consist of 17 different types of fries, tater tots, and onion rings. There is also a kid's menu as well as a vegetarian menu.



My husband chose the green chili burger along with the Detroit Coney dog and regular fries. My mother had the double burger with cheese and regular fries. I had the chicken avocado salad.

They both really liked the burgers, and my husband loved the Coney Dog. The salad was good but nothing special. The regular fries were ok but next time they will probably choose a different side, maybe the tater tots.

Would we go back? Yeah probably, but it is one of those places that you either have to be in the mood for or it



brings you a nostalgic memory from your childhood. The prices weren't crazy high which is good considering what it costs these days to go out to eat.

I give it 3.2 out of 5 stars...

Rita Henderson

Medicare Hack #55

New Medicare Advantage Cuts Threaten Seniors' Benefits



What we know from history is anytime payments to the insurers are reduced, it usually results in a lower benefit or higher cost to the consumer to offset the loss in profit. While it is a noble cause for our government to try and make the system more fair, the reality is that the consumer continues to suffer each and every day. Most are now predicting the "free" monthly premiums that are associated with Medicare Advantage plans may soon go away with the latest round of cuts.

Under the Biden administration's latest adjustments, Medicare Advantage plans will see a slight base payment cut of 0.16 percent next year, igniting concerns over potential reductions in supplemental benefits for seniors.

Critics, including Florida Senator Rick Scott, argue that the decision could translate into tangible decreases in health care coverage for those reliant on these plans, with projected reductions amounting to \$33 monthly or \$396 annually per beneficiary.



"This Medicare Advantage benefits cut will result in the 2.8 million Florida seniors currently enrolled in Medicare Advantage, many of whom live on a

fixed income, having their supplemental benefits reduced by \$33 per month, or \$396 per year," reads a press release issued by Scott.

The change underlines the growing debate over the future of Medicare Advantage, a program that now enrolls over half of all Medicare recipients and has been scrutinized for its cost to taxpayers versus its benefit to enrollees.

The decision to adjust Medicare Advantage payments comes from the Centers for Medicare and Medicaid Services' (CMS) ongoing refinement of the risk adjustment coding system. Initiated last year, the refinements are set to ensure that payments to Medicare Advantage plans more accurately reflect the health status of enrollees.

Historically, Medicare Advantage plans receive compensation based on the documented health conditions of their enrollees, with more complex health profiles drawing higher payments for insurers.

The changes introduced by the Biden administration are designed to ensure a more prudent allocation of taxpayer funds.

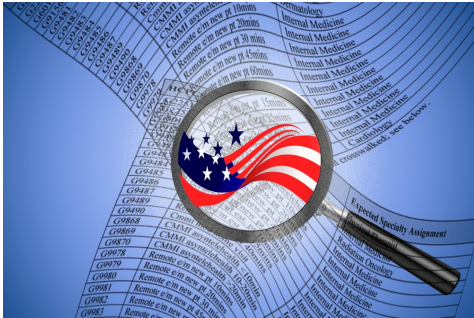
Despite the base payment reduction, Medicare Advantage plans are projected to receive a net payment increase of 3.7 percent, equivalent to \$16 billion once risk adjustments are applied.

The broader context of the changes includes rising health care costs, influenced by increased demand for medical services as the population ages and the aftermath of the pandemic's deferred care.

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According to the CMS, the adjustments are aimed at enhancing health equity, providing more person-centered care, and ensuring the program's sustainability.

Another key change is an update to the payment calculation models, including a decision to set the Effective Growth Rate at 2.33 percent.



This rate takes into account the cost growth of Medicare Fee-For-Service and incorporates a 52 percent adjustment for medical education costs.

As the industry adjusts, the ultimate impact on Medicare Advantage beneficiaries will hinge on how well insurers adapt to the adjustments while maintaining the quality and scope of coverage.

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April Quiz

Question 1:

In which country do cherry blossom trees signify the beginning of Spring?

- A. Thailand
- B. China
- C. Japan

Question 2:

What is the main spring allergy trigger in the United States?

- A. Pollen
- B. Dust Mites
- C. Mold

Question 3: Which country did the Easter Bunny tradition originate from?

- A. Italy
- B. Germany
- C. Ireland

Answers for March

Question 1: In March of 1966, who said that his band was “more popular than Jesus now”?

C. The Beatles

Question 2: Which team owns the largest comeback in an NCAA tournament game?

A. BYU, down 25

Question 3: Which team has never won the NCAA men’s basketball championship?

A. Notre Dame



WHAT US FINANCIAL PLANNERS WISH OUR CLIENTS KNEW ABOUT SOCIAL SECURITY

Social Security Is Taxed (Federal Level)

Alas, Social Security benefits aren't tax-free — and you have to ask Social Security to withhold taxes for you. We have clients who forgot to have anything withheld from their Social Security benefits and when they do their taxes, they realized they owed \$10,000 to the Feds. According to the SSA, federal taxes come into play if the combination of 50% of your Social Security benefit plus any other earned income is more than \$25,000 a year if you're filing individually, or \$32,000 a year if you're filing jointly. To have taxes withheld, submit Form W-4V, Voluntary Withholding Request, to the Social Security Administration.

When One Spouse Dies, a Social Security Check Ends

If your spouse dies and their Social Security check was larger than yours, survivors benefits mean you can start collecting their higher payment. But you don't get to keep both checks. The survivorship is really just collecting the higher benefit, but that means you have to forgo the lower benefit. There is going to be a loss of income.

For this reason, most financial planners often recommend that the higher-earning spouse at least wait until FRA or longer to claim. Because that's the benefit that's going to remain when one of you passes away.

Business Owners May Be Hurting Their Benefit Amount

Entrepreneurs sometimes try to claim as little earned income as possible to pay as little in income tax as they can. But Social Security bases

your benefits on your income over your best 35 earning years, and the lower your income in those years, the smaller your Social Security benefit will be in retirement.

Business owners say, "Reduce my tax, I pay too much in taxes!" People tend to overvalue the tax break now versus the long-term consequences of a smaller benefit later.

To keep an eye on your Social Security numbers, create an account on SSA.gov. You'll be able to review (and potentially correct) your earnings history.

The Best Claiming Age Is Different For Everyone

Although starting Social Security at age 70 nets you the highest benefit, it's not the only answer to the when-to-claim question. Like a lot of planning, it depends on your circumstances. We had a client where no one in her family had lived longer than age 76, so she wasn't super interested in making sure her income was robust into her nineties.

That said, the longer you wait (to a maximum age of 70), the higher your check will be — for the rest of your life. Think of it as longevity insurance as people are living longer.

The right age for claiming Social Security benefits will depend on your health, family history, marital status and financial circumstances. Talking to a financial professional can help. Everybody is different, which makes it all the more reason to really plan and think about: How much do you need for retirement?"

Medicare Supplement Rates Lowest Medicare Supplement Rates For 85258 Maricopa County

Gender	Age	Plan	Carrier	Premium*
Female	65	G	Allstate	\$121.16
Male	65	G	Allstate	\$136.86
Female	65	GHD	New Era Life	\$40.37
Male	65	GHD	New Era Life	\$44.41
Female	65	N	Cigna	\$92.17
Male	65	N	Cigna	\$103.23
Female	70	F	American Home Life	\$158.90
Male	70	F	Medico	\$181.02
Female	70	G	LifeShield	\$130.46
Male	70	G	LifeShield	\$150.03
Female	70	N	Medico	\$100.88
Male	70	N	Cigna	\$113.11

Rates are accurate at the time of production. Included in the list are fraternal organizations, service organizations, and carriers with ratings above B+.

*Source: CSG Actuarial effective dates 04/01/2024

Interest Rates Highest CDs and Share Rates Highest National Rates

Duration	Institution	Yield to Maturity*
1 year	America First	5.30%
2 year	First National	4.80%
3 year	1st Internet Bk	4.66%
4 year	1st Internet Bk	4.55%
5 year	Quontic Bank	4.30%

Rates are accurate at the time of production. We include banks and federal credit unions in our national search. All have FDIC or NCUA Insurance. *Source: BankRate.com 04/01/2024

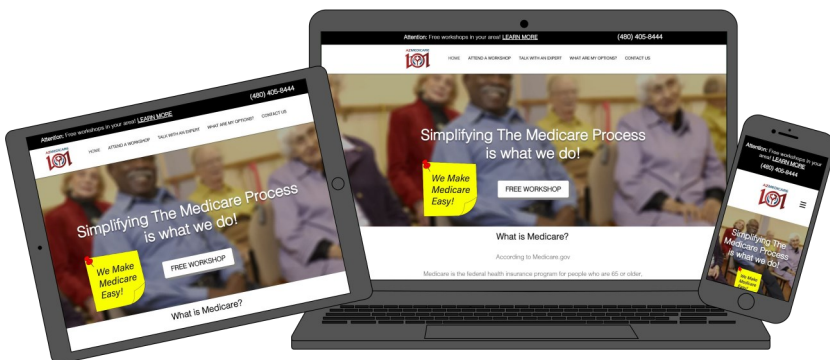
Highest Fixed Annuity Rates Highest Arizona Rates

Duration	Institution	Yield to Maturity*
3 year	CL Life	6.00%
4 year	National Security	5.70%
5 year	Wichita National	6.30%
7 year	Heartland National	5.80%
10 year	Heartland National	5.80%

Rates are accurate at the time of production. Excluded from the list are fraternal organizations, service organizations, and carriers with ratings below B *Source: AnnuityRateWatch 04/01/2024

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