

Planning for 2023: Setting the Stage for the New Year

A new year can bring a fresh start. Many of us take time to evaluate the past year or even create goals for the upcoming year. These practices are valuable and allow us to look at the bigger picture in our lives. Since money is a tool that can assist in achieving goals, applying practices like these to our finances is imperative. Outlined below are a couple items to keep in mind as you plan for the new year:

Inflation. One of the biggest buzzwords of the year. All sorts of terms like transitory, persistent, the Fed, and interest rate hikes all revolved around inflation this past year. It was first perceived that inflation was only transitory, or temporary, but when it persisted through 2022 the Fed realized they needed to act against it. This is when they decided to raise the Federal Funds Rate, which essentially makes accessing money more expensive. This action historically cools the economy and inflation. The chart below outlines all the Fed rate hikes in 2022 and the overall rate range:

FOMC Meeting Date	Rate Change (bps)	Federal Funds Rate
Dec 14, 2022	+50	4.25% to 4.50%
Nov 2, 2022	+75	3.75% to 4.00%
Sept 21, 2022	+75	3.00% to 3.25%
July 27, 2022	+75	2.25% to 2.5%
June 16, 2022	+75	1.50% to 1.75%
May 5, 2022	+50	0.75% to 1.00%
March 17, 2022	+25	0.25% to 0.50%

And this next chart outlines the monthly CPI percentage increases that measure current inflation:

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
2022	0.6	0.8	1.2	0.3	1.0	1.3	0.0	0.1	0.4	0.4	0.1

With the annual goal of the Fed being 2%, and therefore the monthly goal being 0.167%, one can see that inflation has been persistent but slowing since July. As more data is released, it will be clearer if these rate hikes have been successful as they make their way through the economy.

When looking forward to 2023, a key indicator of what to expect for inflation will be where analysts expect future Fed rate hikes to be. At the time of this release, Goldman Sachs expects the hikes to taper to 25 bps each month until May of 2023 for a peak rate of roughly 5.00%-5.25%.

If this holds true, we should expect excess inflation to remain prevalent until the last of these rate hikes are made and their effects take place.

Social Security. A silver lining of inflation for those drawing from social security means there is a raise for monthly payments. Each year, the Social Security Administration adjusts the payouts based on the CPI reading for the previous year. From 2021 to 2022, there was a 5.9% increase across the board. From 2022 to 2023, the increase will be 8.7%. This is important to keep in mind when planning for cash flows and portfolio withdrawals in the coming year.

Annual Updates. Each new year brings about changes and therefore presents an opportunity to review “annual” financial items. The primary ones to revisit are your goals, insurance coverage, and estate plan. Goals are important to consider because they are the main driver behind a financial plan. Without goals, the plan has no direction. An adjustment to your goals may lead to a new recommendation for the plan. Secondly, insurance serves as a protector of a financial plan. Reviewing coverage for health, life, disability, and property/casualty are necessary each year as terms renew and circumstances change. Lastly, estate planning keeps the eventual transfer of a financial plan to heirs smooth. Annually reviewing Power of Attorney designations, wills, and trusts is crucial to ensure an effective transition of assets. Overall, this will save time and keep transfer costs to a minimum.

Achieving something you promised yourself can be difficult. According to recent studies, the average American gives up on their New Year’s resolution in 32 days. A great way to stay on track is having someone to hold you accountable. Let MCF be your partner to make your goals a reality through proper financial planning and execution.

Resources:

[Fed Funds Rate History](#)

[CPI Chart](#)

[Goldman Sachs Fed Funds Outlook](#)

[New Year's Resolutions](#)



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