April 2023 Volume 7, Issue 3

# THE "YOU MAY NOT KNOW REPORT"™

A PUBLICATION OF RETIREMENT LIFESTYLE ADVOCATES


## Americans' Credit Card Debt Tops $1 Trillion

By Dennis Tubbergen

Ever since the updated "New Retirement Rules" book was published in 2016, I have been warning that debt excesses would lead to a severe deflationary environment.

While such an economic climate has not yet fully emerged, there are signs that we are entering such a period. Stocks have fallen 20% from their peak, real estate markets are running out of steam, and the Federal Reserve is raising interest rates to attempt to tame inflation. Ironically, Federal Reserve easy money policies have led to the inflation we have been experiencing, and now the Fed is attempting to solve a problem that it had a big role in creating.

Meanwhile, as Americans are trying to deal with the inflationary environment, credit card debt has been rising – now topping $1 trillion for the first time in history. This[1] from "ABC News":

> *U.S. consumers' total credit card debt exceeded*

*$1 trillion for the first time, according to a new study by the personal finance website WalletHub.*

*Consumers took on an additional $92.2 billion in debt last year, the highest single-year amount since 2007. The average U.S. household owes $8,600 on credit cards, WalletHub found.*

*The accumulation of debt reflected Americans' confidence in the economy, according to Jill Gonzalez, a senior analyst at WalletHub.*

*"We haven't seen anything like this," she told ABC News. "Consumer confidence is at its highest point. Since the recession, people have been saving up for houses, cars ... new furniture and appliances, which often get charged on credit cards."*

I find it interesting that Ms. Gonzalez interprets such high credit card debt as somehow being good for the economy.

In my view, Ms. Gonzales' rationale for such a conclusion is completely non-sensical. If consumers have indeed been "saving up" for major purchases like cars, furniture, and appliances, it seems that credit card debt would not be higher, instead it would be lower.

If I were saving up for a major purchase and elected to put the purchase on a credit card, I would be paying off the credit card balance on the due date to avoid interest charges.

This is NOT what is happening.

Instead consumers are carrying balances on their credit cards.

*And, a quick review of the retail sales numbers confirms that this record high level of credit card debt is not due to retail purchases. This[2] from "Market Watch":*

***The numbers:*** *Sales at retailers fell 0.4% in February and declined for the third time in four months, pointing to a slowdown in consumer spending as higher interest rates take a bite out of the U.S. economic growth.*

*Retail sales are a big part of consumer spending and offer clues about the strength of the economy. Sales had been forecast to fall 0.4%, based on a Wall Street Journal poll of economists.*

*Setting aside car dealers and gas stations, U.S. retail sales were still fairly tepid. Receipts fell at department stores, home centers and outlets that sell home furnishings, clothing and sporting goods.*

Seems that these numbers invalidate the opinion of Ms. Gonzales.

It seems more likely that the reason credit card balances topped $1 trillion is that consumers are feeling the pinch of inflation and dealing with it by taking on debt.

Of course, this will only exacerbate the debt problem and make the eventual deflationary environment worse.

# Federal Reserve Oversight Bill Introduced in Senate

In the wake of bank failures, two US Senators have introduced legislation to create an inspector general who oversees the activities of the Federal Reserve. This[3] from Reuters:

*A conservative Republican and a progressive Democrat in the U.S. Senate are introducing legislation on Wednesday to replace the Federal Reserve's internal watchdog with one appointed by the president, aiming to tighten bank supervision following the failures of Silicon Valley Bank and Signature Bank.*

*Republican Rick Scott and Democrat Elizabeth Warren blamed the collapse of the two banks on regulatory failures at the U.S. central bank, which has operated up to now with an internal inspector general who reports to the Fed board.*

*"Our legislation fixes that by establishing a presidentially-appointed, Senate-confirmed inspector general at the Fed, like every other major government agency," Scott said in a joint release with Warren.*

*Warren said this month's banking upheavals "have underscored the urgent need for a truly independent inspector general to hold Fed officials accountable for any lapses or wrongdoing."*

*The Federal Reserve had no comment on the measure.*

*The legislation, introduced on Wednesday, would replace the Fed's inspector general with an independent IG who would oversee the Federal Reserve and the Consumer Financial Protection Bureau.*

*The CFPB, responsible for consumer protection within the financial sector, is technically housed within the Fed system but operates entirely on its own, save for one key factor: It is funded by transfers from the Fed.*

*Warren played a key role in setting up the CFPB under Democratic President Barack Obama following the 2007-2008 financial crisis. The U.S. Supreme Court last month agreed to hear a case challenging the CFPB's funding struc-*

*ture, which some conservatives argue violates the U.S. Constitution,*

*The cooperation between Scott and Warren, who usually inhabit opposite poles of the political spectrum, could be the start of a new bipartisan push on banking.*

*Warren is a leading voice on financial matters. She sits on both the Senate Banking Committee and the Senate Finance Committee, and chairs subcommittees of both panels.*

*Scott, a former Florida governor, is a hardline conservative who has positioned himself as a leading fiscal hawk.*

*The show of bipartisanship poses a stark contrast with the partisan standoff between Republicans and Democratic President Joe Biden over the nation's $31.4 trillion debt ceiling, which has raised concerns in the financial markets about a prolonged debate that could damage the U.S. economy.*

*Both Republicans and Democrats have pledged tighter oversight of banking regulators following the collapses of Silicon Valley Bank and Signature Bank, which were followed by billions of dollars in losses for financial stocks.*

It's interesting that Scott and Warren, in a joint statement, noted that the legislation would create an inspector general for the fed like every other major government agency. The Fed, as long-time readers of the "You May Not Know Report" know, is not a government agency. Instead, it is a group of independent bankers who were given control of US monetary policy back in 1913 when the Fed was founded.

## Interest on US National Debt Up 29% Year-Over-Year

Not surprisingly, interest costs to service the US national debt have been rising with interest rates. This[4] from "Global Macro Monitor":

*Interest payments on the national debt during the current fiscal year (October to February) are up 29 percent y/y, one of the fastest-growing expenditure components of the Federal budget (see table).*

*Revenues are down, especially individual income taxes, which may reflect the slowing economy. Theory dictates (ceteris paribus) that government tax revenues should be rising with inflation, however. Hmmm.*

*The fact income tax receipts are lower but self-employment tax revenues (1099 employees) are higher, coupled with what is happening with the employment data, can we hypothesize that high income earners are leaving the workforce (or getting fired) and starting their own businesses, such as consultants, for example? Or could it be just a timing issue?*

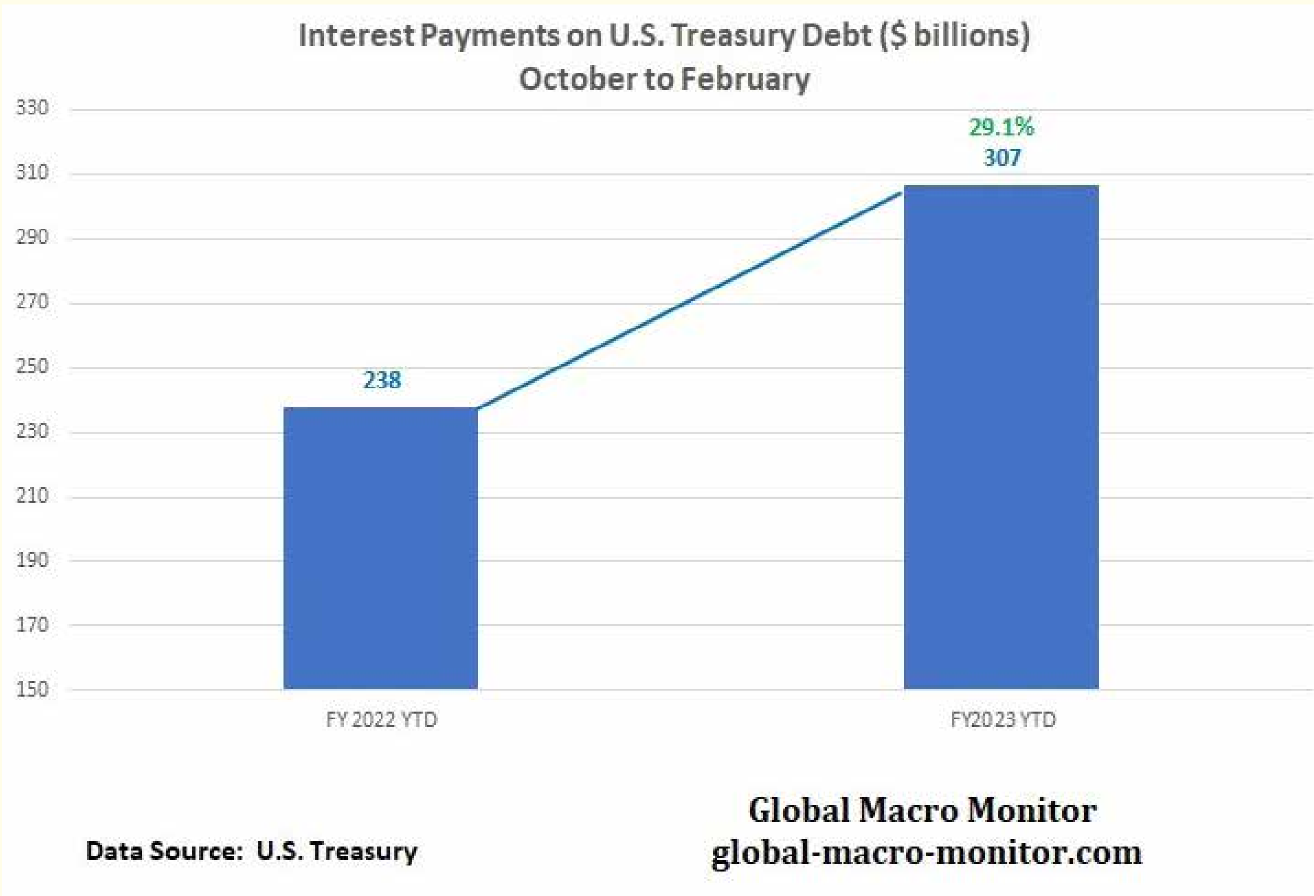
*The overall deficit is exploding, btw, up 50 percent.*

*If the current situation normalizes and Treasury securities lose their flight-to-quality bid, interest rates are going to spike faster than one of Elon's rockets.* (See chart, below.)

Often in these pages of "The You May Not Know Report", we discuss the fact that central bank policies and government stimulus payments have combined to create what is an artificial economy.

Interest costs to service the debt are higher and tax revenues are lower (can you say recession?).

As the economy slows, expect tax revenues to decline and deficits to widen even further.



# The Math Behind Deposit Insurance

FDIC insures bank deposits to $250,000. In light of what has been occurring in the banking sector and will likely continue (at least in my view), it's important to diversify your cash holdings taking care not to exceed the insurance limits and also perhaps diversifying some cash holdings outside the banking system.

There was recently a piece[5] published that broke down the fiscal condition of the Deposit Insurance Fund. Here are some excerpts:

> *As Simon White writes today, "a full guarantee of all bank deposits would spell the end of moral hazard disciplining banks and mark the final chapter of the dollar's multi-decade debasement." And yet that's where we are headed, even if with a few hiccups along the way, because as White also notes, with the latest banking crisis in the US, it's the clean-up that could end up doing far more lasting damage. That's because with the failure of SVB et al prompted the FDIC to guarantee that all depositors will be made whole, whether insured or not.*
>
> *And so, the precedent is being set, with Treasury Secretary Janet Yellen commenting on Tuesday that the US could repeat its actions if other banks became imperiled. She was referring to smaller lenders, and* ***denied the next day that insurance would be "blanket", but given the regulatory direction of travel over the last forty years, this will inevitability apply to any lender when push comes to shove.***

While Yellen attempted to walk back her statements from which a reasonable person could infer that the government would back ALL bank deposits, not just insured deposits, there is a bit of a precedent that has been set here.

The reality of the situation is simple – there is simply no way that all bank deposits can be backed; even just the deposits that are insured. Here is another bit from the article:

> *Realizing it's just a matter of time before the next systemic crisis tips the banking sector over, over the weekend, a coalition of midsize*

*US banks asked federal regulators to extend FDIC deposit insurance for the next two years, so as to alleviate any fears which could result in a wider deposit run on regional and community banks.*

***But what would deposit insurance of all $18 trillion US deposits - not just the $11 or so trillion in deposits that are currently "insured" by the FDIC - look like?*** *As BofA's rates strategist Mark Cabana writes, deposit insurance has been a very effective solution to stabilize deposit outflows historically. Deposit insurance can be done in a variety of ways:* ***(1) all domestic bank deposits; (2) increase coverage to a higher amount vs. the $250k currently.***

*If policymakers consider extending deposit insurance coverage it would impact reserves held in the Deposit Insurance Fund (DIF).*

***What is DIF?*** *One way the FDIC maintains stability and public confidence in the U.S. financial system is by providing deposit insurance. The primary purposes of the Deposit Insurance Fund (DIF) are:*

1. *to insure the deposits and protect the depositors of insured banks and*
2. *to resolve failed banks.*

*While the DIF is backed by the full faith and credit of the United States government, it has two sources of funds: i) assessments (insurance premiums) on FDIC-insured institutions and ii) interest earned on funds invested in U.S. government obligations. The government guarantee of insured deposits is not limited by the amount in the DIF. One can think of DIF as a "first loss" tranche absorbed by assessed bank funds in DIF.*

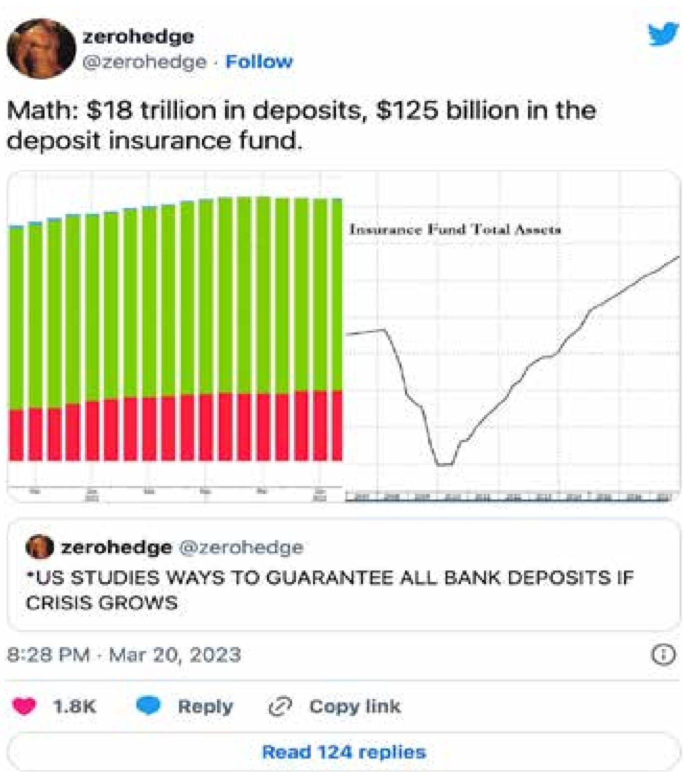
***Where does the DIF stand today?*** *The DIF's reserve ratio (the fund balance as a percent of insured deposits) was 1.27% (or $128.2bn) on Dec 31, 2022. The FDIC was aiming to increase the reserve ratio to 1.35% by Sep 30, 2028 or ~$8bn increase.*

***What % of deposits are insured?*** *Estimated* ***insured deposits stood at $10.1 trillion or 56.8% of total deposits held at FDIC insured institutions of $17.8trn as of Dec 31, 2022****. Recent proposals would increase insurance coverage; the extent of insurance increase differs by proposal.*

***DIF increase needed to provide more insurance?*** *Assuming the 1.35% target reserve ratio is applied to the uninsured deposits, t**his would imply a reserve build of $104bn.***

***Cost to insure all deposits?*** *$104bn in reserve build to cover uninsured deposits compares to net income across all FDIC insured banks of $263bn reported for 2022.* ***Obviously, this reserve build would need to happen over several years to limit the impact on industry profitability in any given year.*** *Assuming that this additional assessment is spread over ten years, implies an* ***approximately 50bp drag on annual ROE for the industry.***

*Of course, all this assumes the DIF is never really used, but the statutory amount is meant to serve as a confidence booster. After all, the total expanded DIF amount of $230 billion would be insufficient to bail out the uninsured depositors of even one TBTF bank like JPM. In fact, if all deposit insurance had to be used,* *it would mean the US government somehow has to fund a total of $18 trillion in deposits, an amount equal to 75% of US GDP. It's ain't happening.*




You read that correctly. Total bank deposits are the equivalent of 75% of US Gross Domestic Product. There are $18 trillion in deposits with a reserve in the Deposit Insurance Fund to back them of about $125 billion. That's a total reserve of .69% of deposits.

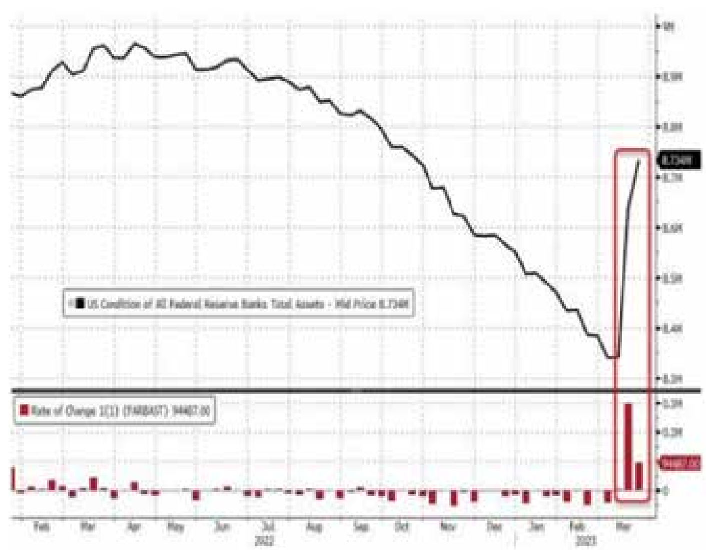
While the logical thing to do would be to increase the reserves, that is easier said than done. The Deposit Insurance Fund can derive income only from two sources. Interest income on the US Treasuries owned by the fund or by levying additional fees on member banks.

The reality is that the Federal Reserve has been creating currency to cover the losses. No matter what you call it, currency creation leads to inflation and more US Dollar devaluation.

One needs to look no farther than the Fed's balance sheet to see where the money came from to make depositors whole in light of the recent bank failures. This[6] from "Zero Hedge":

*The much awaited release of the Fed's latest weekly balance sheet update was released at <u>exactly 4:30pm</u>, and not surprisingly, it showed that in the past week the bank bailout continued if at a less torrid pace.*

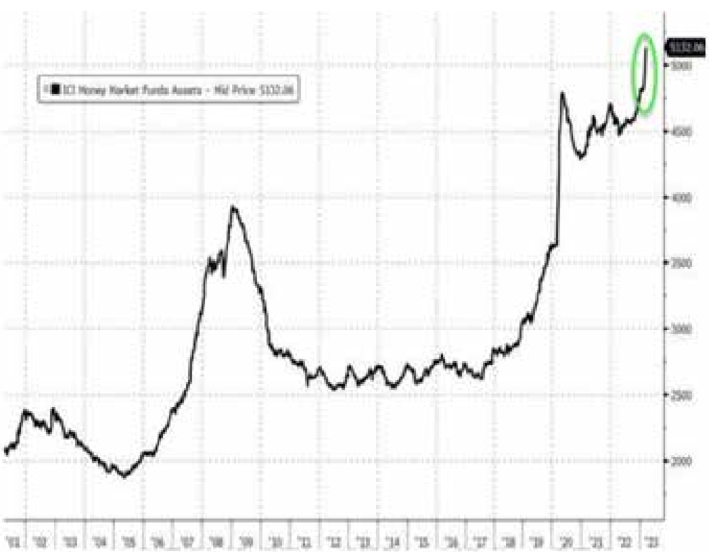
*As of March 22, the Fed's balance sheet increased by $94.5 billion to $8.734 trillion from $8.639 trillion which in turn was a $297 billion increase from the previous week when the bank crisis started. In total, the Fed's balance sheet has increased by $393 billion in the past two weeks, and is fast approaching its all time high of $8.95 trillion one year ago, when QT kicked in and shrank the Fed's assets by $600 billion.*



*Meanwhile, with QT still laughably taking place in the background, the Fed's holdings of TSYs dropped by $3.5 billion to $7.937 trillion.*

*The question is whether after emergency Fed facilities rose by another $100 billion - a rough proxy of how much deposit drain took place in* *the week - if this marks the peak for the credit crisis. And while that may have been true until yesterday, it is none other than Janet Yellen herself who sent bank stocks plunging in the past 48 hours with her amateurish comments. In any case, this means that we will need to wait one more week until the next H.4.1 statement to see if the various emergency Fed facilities are declining or if they continue to rise and will eventually be replaced with permanent reserve facilities such as QE, similar to what happened after the 2008 financial crisis.*

*Finally, while the Fed is flooding the system with emergency reserves, those wondering where these are going should look at the Fed's reverse repo facility which has soared, as well as money market funds which have been scooping up cash recently, fueled in large part by depositors pulling their money away from US banks.*



*The amount of money parked at money-market funds climbed to a fresh record in the week through March 22 as banking concerns continued to rock global markets. According to data from the Investment Company Institute, about $117.4 billion poured into US money-market funds in the week through March 22, bringing total assets up to an unprecedented $5.132 trillion, versus the $5.01 trillion in the week to March 15.* ***Inflows over the past two weeks totaled more than $238 billion.***

The Fed is creating currency to backstop the banks while at the same time increasing interest rates, ostensibly to fight inflation.

An objective look at the numbers is telling. The Fed created just shy of $400 billion in new currency over two weeks to prop up banks and over the same time frame, money market funds saw an increase in inflows of $238 billion. One has to assume much of these inflows to money markets were sourced from bank accounts.

Mark my words.

There will be more banking failures and more currency creation to bail those banks out moving ahead.

If you've not already done so, you may be wise to diversify your cash holdings and own some precious metals.

## Tax Freedom Day is April 18

Each year, many organizations calculate when "Tax Freedom Day" arrives.

Tax Freedom Day is the last day that the average American has to work to pay off his or her tax liability for the year. For 2023, Tax Freedom Day arrives on April 18.

Rather remarkable that the average American works nearly 4 months to pay all the taxes demanded of him or her by the government. But, the actual day on which tax freedom arrives is dependent on the state in which one lives. This[7] from "Wallet Hub":

*This year, Uncle Sam will take his cut of the past year's earnings on April 18. Many taxpayers are undoubtedly wondering how this year's Tax Day will affect their finances, as a lot of people are still struggling financially as a result of the pandemic. Since the tax code is so complicated and has rules based on individual household characteristics, it's hard for the average person to tell how they will be impacted.*

*One simple ratio known as the "tax burden" helps cut through the confusion. Unlike tax* rates, *which vary widely based on an individual's circumstances, tax* burden *measures the proportion of total personal income that residents pay toward state and local taxes. And it isn't uniform across the U.S., either.*

*To determine the residents with the biggest tax burdens, WalletHub compared the 50 states across the three tax types of state tax burdens — property taxes, individual income taxes and sales and excise taxes — as a share of total personal income in the state.*

The top right table shows the ten states with the worst tax scores. If you are a resident of these states, Tax Freedom Day will come a little later for you.

And, the bottom table shows the ten most favorable states from a tax perspective. If you are a resident of these states, you enjoy Tax Freedom Day a little earlier in the year.

## States with the Worst Tax Scores

| Overall Rank* | State | Total Tax Burden (%) | Property Tax Burden (%) | Individual Income Tax Burden (%) | Total Sales & Excise Tax Burden (%) |
|---|---|---|---|---|---|
| 1 | New York | 12.75% | 4.43% (6) | 4.90% (1) | 3.42% (25) |
| 2 | Hawaii | 12.70% | 2.55% (34) | 3.18% (8) | 6.97% (1) |
| 3 | Maine | 11.42% | 5.48% (1) | 2.51% (21) | 3.43% (24) |
| 4 | Vermont | 11.13% | 5.31% (2) | 2.49% (22) | 3.33% (27) |
| 5 | Minnesota | 10.20% | 2.93% (22) | 3.74% (5) | 3.53% (22) |
| 6 | New Jersey | 10.11% | 4.98% (4) | 2.54% (20) | 2.59% (43) |
| 7 | Connecticut | 10.06% | 4.16% (7) | 3.07% (11) | 2.83% (41) |
| 8 | Rhode Island | 9.91% | 4.48% (5) | 2.31% (28) | 3.12% (34) |
| 9 | California | 9.72% | 2.76% (30) | 3.80% (4) | 3.16% (32) |
| 10 | Illinois | 9.70% | 3.98% (8) | 2.22% (30) | 3.50% (23) |

## States with the Most Favorable Tax Scores

| | | | | | |
|---|---|---|---|---|---|
| 41 | Oklahoma | 7.47% | 1.74% (48) | 1.90% (36) | 3.83% (17) |
| 42 | Alabama | 7.41% | 1.41% (50) | 2.00% (35) | 4.00% (13) |
| 43 | Montana | 7.39% | 3.45% (13) | 2.66% (15) | 1.28% (47) |
| 44 | South Dakota | 7.12% | 2.84% (23) | 0.00% (44) | 4.28% (9) |
| 45 | Florida | 6.64% | 2.77% (28) | 0.00% (44) | 3.87% (16) |
| 46 | New Hampshire | 6.41% | 5.11% (3) | 0.14% (42) | 1.16% (49) |
| 47 | Wyoming | 6.32% | 3.32% (15) | 0.00% (44) | 3.00% (35) |
| 48 | Delaware | 6.22% | 1.77% (46) | 3.28% (7) | 1.17% (48) |
| 49 | Tennessee | 5.75% | 1.71% (49) | 0.06% (43) | 3.98% (14) |
| 50 | Alaska | 5.06% | 3.54% (11) | 0.00% (44) | 1.52% (46) |

*April 2023 Special Report*

# Five Forecasts for the Economy and Investing Markets

This month only, we are making available a free report titled, “Five Forecasts for the Economy and Investing Markets”.

This month’s report contains quotes from interviews done with four expert guests on the RLA radio program. Host, Dennis Tubbergen moderates this debate in print as to where the US and world economy and the financial markets may go from here.

This April special report is a unique format and contains economic and investing forecasts from five experts.

Interestingly, there is a great deal of commonality in these forecasts.

You’ll also get some thought-provoking strategies and ideas to consider for your own individual financial situation.

To request your complimentary copy this month only, return one of the postage-paid reply cards included with this month’s newsletter. You’ll notice that we’ve included three reply cards with this month’s newsletter; we’ve done that so you can request a copy of this report for anyone you know that might find this

This report is available only during the month of April.


## Time Deposit Rates

At the time of publication, these rates were valid:

| | |
|---|---|
| 1-Year | 4.30% |
| 2-Year | 4.50% |
| 5-Year | 5.10% |

Call the office for details at

1-866-921-3613

# Resources to Help You Stay Informed

All these resources are available at the Retirement Lifestyle Advocates website: **www.RetirementLifestyleAdvocates.com**.

As previously mentioned in this month's "You May Not Know Report"™, the weekly "Portfolio Watch" newsletter is available on the Retirement Lifestyle Advocates website. Each week, I give you an update as to where we are economically speaking and in the financial markets and where we are going based on my analysis.

The weekly "Headline Roundup" webinar. Replays are available on the website. "Headline Roundup" happens every Monday live at Noon Eastern Time. To get an invite to the live event, give the office a call at **1-866-921-3613**.

The weekly "RLA Radio" show and podcast.

We also have the RLA app available. All these resources are also available on the app.

You can download the YOURRLA app for free by visiting the app store (either Google or Apple) and searching under YOURRLA.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.

## Sources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