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Your Source for Financial Well-Being

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F-150

The Ford F-Series, including the F-150® pickup truck, topped the list of best-selling vehicles in the U.S. in both 2003 and 2023. In fact, Ford F-Series trucks have endured for the long haul, leading vehicle sales since 1982.

Source: Ford Motor Company, 2023

Then and Now

In 2003, the U.S. was emerging from the dot-com recession, unemployment rates were peaking during a jobless recovery, and online shopping was becoming more popular. Twenty years have passed, and here's how some things have changed — one pandemic and two recessions later.

	Average mortgage rate (30-year fixed)[1]	Unemployment rate[2]	E-commerce sales (percent of total retail)[3]	Personal saving rate (percent of disposable income)[4]	Average credit card interest rate[5]
2003	6.32%	6.1%	1.7%	6.1%	12.89%
2023	7.18%	3.8%	15.4%	3.5%	22.16%

Sources: 1) Freddie Mac, 2023 (August); 2) U.S. Bureau of Labor Statistics, 2023 (August); 3) U.S. Census Bureau, 2023 (Q2); 4) U.S. Bureau of Economic Analysis, 2023 (July); 5) Federal Reserve Board, 2023 (Q2)

Bond Yields Are Up, but What Are the Risks?

After years of low yields, bonds are offering higher yields that may be appealing to investors regardless of their risk tolerance. While bonds could play a role in any portfolio, they can be a mainstay for retirees looking for stability and income, and near-retirees might consider shifting some assets into bonds in preparation for retirement.

Bonds are generally considered to have lower risk than stocks — one good reason to own them — but they are not without risk. In fact, bonds are subject to multiple risks. In considering the brief explanations below, keep in mind that coupon rate refers to the interest paid on the face value of a bond, whereas yield refers to the return to the investor based on the purchase price. A bond purchased for less than face value will have a higher yield than the coupon rate, and a bond purchased for more than face value will have a lower yield than the coupon rate.

Interest rate risk (or market risk) — the risk that interest rates will rise, making the coupon rate on an existing bond less appealing because new bonds offer higher rates. This typically lowers the value of a bond on the secondary market, but it would not change the yield for a bond purchased at issue and held to maturity. As the Federal Reserve has rapidly raised rates to combat inflation, the potential resale value of existing bonds has plummeted. However, rates may be nearing a peak, which potentially could make it a more opportune time to purchase bonds. If interest rates drop, the value of a bond will typically increase.

Duration risk — the risk that longer-term bonds will be more sensitive to changes in interest rates. Duration is stated in years and based on the bond's maturity date and other factors. A 1% increase in interest rates typically will decrease a bond's value on the secondary market by 1% for each year of duration. For example, a bond with a duration of seven years can be expected to lose 7% of its value on the secondary market.

Opportunity risk (or holding period risk) — the risk that you will not be able to take advantage of a potentially better investment. The longer the term of a bond, the greater the risk that a more attractive investment might arise or other events might negatively impact your bond investment.

Inflation risk — the risk that the yield on a bond will not keep up with the rate of inflation. This might be of special concern in the current environment, but high inflation is the reason that the Fed has been raising interest rates. If inflation cools, bonds with today's higher yields could outpace inflation going forward.

Call risk — the risk that an issuer will redeem the bond when interest rates are falling in order to issue new bonds at lower rates. Investors can avoid this risk by purchasing non-callable bonds.

By the Letters

Bond ratings in descending order of creditworthiness as judged by the three best-known rating agencies (shaded ratings are considered non-investment grade)

Standard & Poor's	Moody's	Fitch
AAA	Aaa	AAA
AA+/–	Aa1–3	AA+/–
A+/–	A1–3	A+/–
BBB+/–	Baa1–3	BBB+/–
BB+/–	Ba1–3	BB+/–
B+/–	B1–3	B+/–
CCC+/–	Caa1–3	CCC+/–
CC/C	Ca	CC/C
D	C	RD/D

Note: Standard & Poor's and Fitch Ratings use the symbols + and - to denote the upper and lower ranges of ratings from AA to CCC; Moody's uses the numbers 1, 2, and 3 to denote the upper, middle, and lower ranges from Aa to Caa.

Credit risk (or risk of default) — the risk that the bond issuer is unable to make promised interest payments and/or return principal upon maturity. Credit-rating agencies analyze this risk and issue ratings that reflect their assessment. Higher-rated bonds are considered "investment grade." Lower-rated bonds, commonly called "junk bonds," are non-investment grade. They generally offer higher yields and are considered speculative with higher credit risks.

Some lower-rated bonds may be insured, so the bond carries two ratings, one for the bond and one for the insurance company. Bond insurance adds a potential layer of protection if an issuer defaults, but it is only as good as the insurer's credit quality and ability to pay. An investor should not buy bonds based solely on the insurance.

The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

College Forecast: Skepticism Toward Higher Education Rises

A notable shift in public opinion over the past decade about the value of a college degree may portend a reckoning for the higher education industry in the years ahead — and for the families who are trying to save for and manage the costs. A 2023 survey found disaffection spreading to all age groups, with 56% of Americans saying a four-year college degree isn't worth the cost due to students graduating with significant debt and a lack of specific job skills vs. 42% who think college is worth it.[1] Ten years ago, the survey numbers were almost reversed.

Lower College Enrollment

Public misgivings about college intensified during the pandemic, when academic instruction moved online and families began questioning sky-high tuition costs. This translated into lower enrollment, which continued post-pandemic. For the 2022–2023 school year, the college enrollment rate was 62%, down from 66.2% in 2019–2020. Over the past decade, college enrollment has declined by about 15%.[2]

There are other factors at play besides public skepticism. A robust job market for less-educated workers has made it easier for high school graduates to justify skipping college and head straight into the labor market. At the same time, alternative forms of job training, such as apprenticeships and certificate programs, have become more prevalent and are increasingly seen as viable educational paths toward landing a good job.

Cost: The Elephant in the Room

A big reason Americans are souring on college is the cost. For the 2022–2023 school year (most recent data available), the average one-year cost for tuition, fees, room, and board was $23,250 for in-state students at a four-year public college, $40,550 for out-of-state students, and $53,430 at a four-year private college.[3] But many schools, especially "elite" private colleges, cost substantially more, with some over the $80,000 mark.[4]

Even with a discount on the sticker price, the total cost over four years is too much for many families to absorb. One result of high sticker prices in recent years has been a surge of interest in public colleges, particularly state flagship universities, many of which offer robust academic and student life opportunities comparable to their private counterparts.

Another factor in the college value proposition is time. Four years (or longer if a student changes majors or doesn't have enough credits to graduate) is a significant investment of time when compared to a one- or two-year certificate or apprenticeship program. Some students are balking at the traditional time commitment of college and the lost opportunity cost of not entering the job market sooner.[5]

Federal Student Loan Interest Rates

	2022–2023	2023–2024
Direct Loan: Undergraduate	4.99%	5.50%
Direct Loan: Graduate	6.54%	7.05%
PLUS Loan: Parent and Graduate	7.54%	8.05%

Source: U.S. Department of Education, 2023

The Burden of Student Loans

Many students need to take out federal, and sometimes private, loans to cover college expenses. Interest rates on federal student loans are based on the rate for the 10-year U.S. Treasury note and reset each year. For the 2023–2024 school year, they have increased again and are now the highest in a decade.

The burden of student loan debt was bubbling in the public consciousness for years but boiled over during the pandemic. Nine payment pauses since March 2020 halted repayment, and widespread calls to cancel student debt led to an executive order in August 2022 cancelling up to $10,000 in federal student loans ($20,000 for Pell Grant recipients) for borrowers with incomes below certain limits, an order that was struck down in June 2023 by the U.S. Supreme Court.[6] Also in June, as part of the debt ceiling agreement, Congress ordered an end to the payment pause, and the Department of Education later clarified that payments would start back up in October — a sobering reality for millions of borrowers after three-and-a-half years of payment pauses.[7]

To help those who may be in financial distress, a new income-driven repayment plan — Saving on a Valuable Education (SAVE) — will allow borrowers to cap their monthly student loan payments at 5% of their discretionary income. It replaces the Revised Pay as You Earn (REPAYE) plan, which capped monthly payments at 10% of discretionary income.[8]

1) *The Wall Street Journal,* May 31, 2023 (numbers do not add up to 100% due to rounding)

2, 5) *The Wall Street Journal,* May 29, 2023

3) The College Board, 2022

4) Harvard University, 2023; Stanford University, 2023

6) *The New York Times,* June 30, 2023

7) Fiscal Responsibility Act of 2023; U.S. Department of Education, 2023

8) U.S. Department of Education, 2023

How to Kill Your Zombie Subscriptions

In a 2022 survey, consumers were first asked to quickly estimate how much they spend on subscription services each month, then a while later, they were directed to break down and itemize their monthly payments. On average, the consumers' actual spending was $219 per month, about 2.5 times as much as the $86 they originally guessed.[1]

Zombie subscriptions are auto-renewing services that people sign up for then forget about or rarely use. Some common examples include mobile phone and internet plans, television, music, and game streaming services, news subscriptions, meal delivery, language courses, and health/fitness memberships (digital and in person).

New types of services are rolling out every day, which is just one reason why subscription costs can creep up on you. But with inflation cutting into your purchasing power, getting rid of a few unnecessary recurring charges could help balance your household budget.

Conduct an audit. Some subscriptions are billed annually, so you may need to scrutinize a full year's worth of credit card statements. Plus, if you purchased a subscription through an app store on your smartphone, the name of the service won't be specified. So when you notice a recurring charge that you can't identify, try looking for a list of subscriptions in your device's settings.

Share of consumers who forgot about subscriptions but still paid for them, by age group

Source: C+R Research, 2022

Use an app. One in 10 consumers said they rely on banking and personal finance apps to track their spending on subscription services. There are several popular services that can be used to scan account statements for recurring costs and remind you to cancel unwanted subscriptions before they renew automatically — if you are comfortable sharing your financial information.

Some companies make it difficult to cancel unwanted subscriptions by requiring a call, hiding the phone number, and/or forcing customers to wait to speak to a representative. If you find this practice frustrating, help may be on the way. The Federal Trade Commission has proposed a new rule that requires companies to make it just as easy to cancel a subscription as it is to sign up.

1) C+R Research, 2022