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James V Sadrianna PA - December 2020 Newsletter

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For more information on costs and benefits related to Social Security and Medicare, visit ssa.gov and medicare.gov.

What Will You Pay for Medicare in 2021?

Medicare premiums, deductibles, and coinsurance amounts change annually. Here's a look at some of the costs that will apply in 2021 if you're enrolled in Original Medicare Part A and Part B.

Medicare Part B premiums

According to the Centers for Medicare & Medicaid Services (CMS), most people with Medicare who receive Social Security benefits will pay the standard monthly Part B premium of $148.50 in 2021.

People with higher incomes may pay more than the standard premium. If your modified adjusted gross income (MAGI) as reported on your federal income tax return from two years ago (2019) is above a certain amount, you'll pay the standard premium amount and an Income Related Monthly Adjustment Amount (IRMAA), which is an extra charge added to your premium, as shown in the following table.

You filed an individual income tax return with MAGI that was:	**You filed a joint income tax return with MAGI that was:**	**You filed an income tax return as married filing separately with MAGI that was:**	**Monthly premium in 2021 including any IRMAA is:**
$88,000 or less	$176,000 or less	$88,000 or less	$148.50
Above $88,000 up to $111,000	Above $176,000 up to $222,000	N/A	$207.90
Above $111,000 up to $138,000	Above $222,000 up to $276,000	N/A	$297.00
Above $138,000 up to $165,000	Above $276,000 up to $330,000	N/A	$386.10
Above $165,000 and less than $500,000	Above $330,000 and less than $750,000	Above $88,000 and less than $412,000	$475.20
$500,000 and above	$750,000 and above	$412,000 and above	$504.90

Other Medicare costs

The following out-of-pocket costs for Original Medicare Part A and Part B apply in 2021:

- Part A deductible for inpatient hospitalization: $1,484 per benefit period
- Part A premium for those who need to buy coverage: up to $471 per month (most people don't pay a premium for Medicare Part A)
- Part A coinsurance: $371 per day for days 61 through 90, and $742 per "lifetime reserve day" after day 90 (up to a 60-day lifetime maximum)
- Part A skilled nursing facility coinsurance: $185.50 for days 21 through 100 (for each benefit period)
- Part B annual deductible: $203

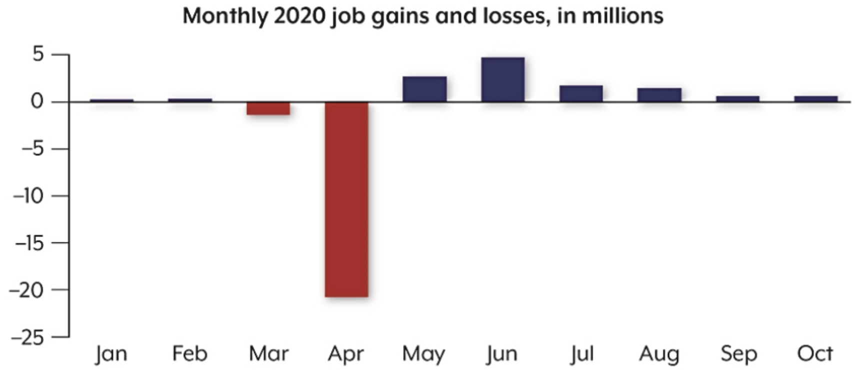
The Jobs Recovery: More Work to Be Done

As we approach the end of a very difficult year, this might be a good time to look at the state of the jobs recovery so far and consider its future prospects.

In April 2020, the U.S. economy lost an astonishing 20.8 million jobs, by far the largest loss recorded in a single month dating back to 1939. To put this in perspective, the second largest monthly job loss was about 2 million in September 1945, when defense industries reduced production at the end of World War II.[1]

The April unemployment rate spiked to 14.7%, the highest official rate on record (though unemployment has been estimated as high as 25% during the Great Depression). Just two months earlier, it was 3.5%, a 50-year low.[2-3]

As these numbers indicate, the impact of the COVID-19 recession on U.S. employment is unprecedented. As we approach the end of a very difficult year, this might be a good time to look at the state of the jobs recovery so far and consider its future prospects.



Source: U.S. Bureau of Labor Statistics, 2020

Measuring unemployment

The headline unemployment rate for October was 6.9%, a 1% improvement over September and less than half the rate in April. The rate is moving in the right direction but has a long way to go, and the headline rate — officially called U-3 — is not always the best indication of the state of employment. The U-3 rate only measures those who are unemployed and have actively looked for work during the previous four weeks.[4]

The broadest measure, U-6, includes discouraged and other "marginally attached" workers — those who are not currently looking for a job but are available to work and have looked in the last 12 months — and part-time workers who want and are available for full-time work. By this measure, the unemployment rate in October was 12.1%, suggesting that almost one out of eight Americans who want to work full-time cannot do so.[5]

Among the positive news in the October report was that almost 750,000 people age 20 and older — including 480,000 women — joined the labor force (meaning they are either employed or actively looking for work). This came after 1.1 million left in September — about 80% of them women — suggesting they may have dropped out to care for children attending school remotely or because they lacked child care. Women are also more likely to work in jobs that have been especially hard-hit by the pandemic. Since February, almost 2.2 million women have left the labor force compared with just 1.4 million men.[6-7]

Diminishing job gains

Prior to March 2020, the U.S. economy added jobs for 113 consecutive months dating back to October 2010. With the beginning of lockdowns in March, followed by the April collapse, more than 22 million jobs were lost over a two-month period.[8]

About 12 million jobs returned over the next six months, but that leaves the economy down 10 million jobs, and growth has slowed substantially since almost 5 million jobs were added in June during the first wave of reopenings. September and October saw gains of 672,000 and 638,000, respectively — great months during a healthy economy, but not nearly enough to catch up.[9] If job creation continues at that pace, it would take about 15 months to get back to pre-pandemic levels, and that may be optimistic. In the October Economic Forecasting Survey of *The Wall Street Journal,* more than 40% of economists projected that payrolls would not return to pre-pandemic levels until 2023, and about 10% thought it would take even longer.[10]

An uneven recession

Different industries respond differently during any recession, but the pandemic has created big disparities that have led to large-scale layoffs. The leisure and hospitality industry has been hit the hardest, with total payrolls still down 20% from a year ago, despite more than 4.8 million employees returning to work over the last six months. By contrast, payrolls in the financial industry are down just 0.9%. Manufacturing is down 4.5%, and professional/business services is down 4.9%. Driven by demand for housing, the construction industry added 84,000 jobs in October and is down just 2.6% over October 2019.[11]

The retail industry added more than 100,000 jobs in October and is down only 3.0% from a year ago, aided by the strength of building supply stores, warehouse stores, and food and beverage stores, which have added almost 300,000 employees over the past year. Even with many locations reopening, employment in clothing stores is still down almost 25%, while sporting goods and hobby stores are down 16%. Online retailers, which have flourished during the pandemic, added 54,000 employees over the last six months, but payrolls are flat over a year ago.[12] In 2019, retailers hired more than a half million temporary employees during the winter holiday season, but with so many brick-and-mortar stores struggling, the holidays may not provide as much of a boost this year.[13]

Imagining the future

In the near term, the employment picture will depend in large part on controlling the coronavirus. The spike in cases going into the winter cold and flu season suggests that the return-to-work process may slow down. Recent news regarding a vaccine is encouraging, and some high-risk groups might be inoculated by the end of the year. However, a vaccine may not be widely available until spring 2021.[14]

While an effective vaccine could be a game changer, it will not instantly open businesses or return all employees to the same jobs they had before the pandemic. For example, the shift to online retailing, which requires fewer employees, will likely continue. On the other hand, pent-up demand for travel and dining in restaurants could lead to a surge in hiring. A recent survey of frequent travelers found that 99% are eager to travel again, and 70% plan to take a vacation in 2021.[15]

In the best case, the pandemic might inspire changes that will strengthen the American workforce. In October, more than 21% of U.S. workers were still working remotely due to COVID-19, and many companies are making remote work a permanent option — a paradigm shift that may open new jobs for workers living outside of urban centers.[16] The combination of remote work, remote learning, cheap technology, and low interest rates might offer opportunities to rethink broad business, employment, and education models. In the long term, the jobs recovery could depend on innovation as much as a vaccine.

1-2, 4-6, 8-9, 11-12, 16) U.S. Bureau of Labor Statistics, 2020

3) *The Wall Street Journal,* May 8, 2020

7) Associated Press, November 8, 2020

10) The Wall Street Journal Economic Forecasting Survey, October 2020

13) National Retail Federation, 2020

14) MarketWatch, November 13, 2020

15) Travel Leaders Group, October 16, 2020

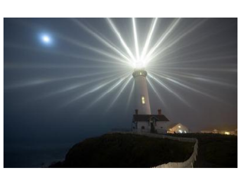
Am I having enough tax withheld from my paycheck?

It is important that you properly estimate your tax withholding. If an insufficient amount of taxes is withheld, you may end up owing a substantial sum, including penalties and interest, when you file your tax return. Choosing the correct withholding amount for your salary or wages is a matter of completing Form W-4 worksheets, providing an updated Form W-4 when your circumstances change, and perhaps becoming familiar with IRS Publication 505, which deals with withholding and estimated tax.

Two factors determine the amount of income tax your employer withholds from your regular pay: the amount you earn, and the information regarding filing status and withholding allowances that you provide your employer on Form W-4. If you accurately complete all Form W-4 worksheets and you do not have significant nonwage income (e.g., interest and dividends), it is likely that your employer will withhold an amount close to the tax you owe on your return. In the following cases, however, accurate completion of the Form W-4 worksheets alone will not guarantee that you will have the correct amount of tax withheld:

- When you are married and both spouses work
- When you are working more than one job
- When you have nonwage income, such as interest, dividends, alimony, unemployment compensation, or self-employment income
- When you will owe other taxes on your return, such as self-employment tax or household employment tax
- When your withholding is based on obsolete W-4 information for a substantial part of the year (e.g., you've gotten married, gotten divorced, gained a dependent, experienced income fluctuations)

To ensure that you have the correct amount of tax withheld, obtain a copy of IRS Publication 505. It should help you compare the total tax to be withheld for the year to the tax you anticipate owing on your return. It can also help you determine any additional amount you may need to withhold from each paycheck to avoid owing taxes when you file your return. Alternatively, it may help you identify if you are having too much tax withheld.



Tax Tips: Homeowners Insurance

The purpose of home insurance is obvious. The tax rules surrounding home insurance, though, aren't always so clear. For example, if your insurance won't cover you for a given loss, are you simply left holding the bag, or can you expect some tax relief? And what about premiums--can you deduct them or not? Here are some tax tips to help you make sense of it all.

If your home or possessions are damaged, destroyed, or stolen, you may get a tax deduction

If you suffer a home-related loss, begin by reading your homeowners policy carefully to find out what is and isn't covered. Section 1 of your policy explains the types of property coverages, lists the specific perils that you're insured against (e.g., damage caused by fire, theft, and hail), describes the exclusions from coverage (e.g., damage caused by a flood or earthquake), and details any conditions that you must meet for coverage to apply.

In many cases, your homeowners insurance will reimburse you for your loss. Sometimes, though, you'll be only partially reimbursed or not compensated at all. In such cases, you may be entitled to some tax relief.

If your home is damaged or destroyed in an accident or by an act of nature (e.g., windstorm, lightning), and your homeowners insurance does not completely reimburse you for the loss, you may be able to claim a casualty loss tax deduction on your federal income tax return. (A casualty is the damage, destruction, or loss of property resulting from an identifiable event that is sudden, unexpected, or unusual.) In addition, if your personal possessions are stolen, damaged, or destroyed, you may be able to claim a theft or casualty loss tax deduction if you're not fully reimbursed for your loss.

How does the theft or casualty loss deduction work?

You must file federal Form 1040 and itemize your deductions on Schedule A to claim a casualty or theft loss deduction. For individual taxpayers, the casualty or theft deduction is subject to two limitations. First, you can't deduct the first $100 of any loss. So, if your $99 watch was stolen from your bedroom and nothing else was taken, you're out of luck (at least in terms of a deduction). Second, even if your loss exceeds $100, you can only deduct casualty and theft losses if the total amount you lost in the year (after the $100 per casualty threshold) exceeds 10 percent of your adjusted gross income (AGI). However, casualty and theft losses are not subject to the overall limitation on itemized deductions based on your adjusted gross income.

If you're reimbursed for your loss by your insurer, you must subtract this reimbursement amount when calculating your loss for tax purposes. In other words, you do not have a casualty or theft loss to the extent you are reimbursed. Also, keep in mind that if you do suffer a property loss and the property is covered by insurance, you should file a timely insurance claim. Otherwise, you may not be able to deduct your loss.

Calculating the amount of your loss

If you suffer a personal (as opposed to business) property loss, the amount of your loss is the smaller of (1) the decrease in the fair market value (FMV) of the property as a result of the loss or (2) your adjusted basis in the property before the loss. (Adjusted basis is usually your cost, increased or decreased by various events.) After determining the smaller figure, you subtract any insurance reimbursements.

For example, assume a fire severely damaged your home. You had bought the house for $50,000 (adjusted basis) a few years ago, and it was appraised at $75,000 before the fire. It was worth only $15,000 after the fire. Your insurance company paid you $45,000 for the loss. Here's what you do:

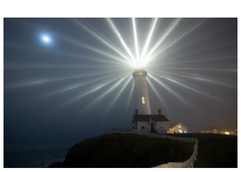
1. Adjusted basis in the property before the loss: $50,000
2. Decrease in property's FMV: $60,000 ($75,000 minus $15,000)
3. Loss: $50,000 (smaller of 1 or 2, above)
4. Subtract insurance reimbursement of $45,000
5. Amount of loss: $5,000

Finally, you'd apply the two deduction limitations ($100 deductible; 10 percent of AGI) to determine the amount of your casualty loss deduction.

In general, you'll use Form 4684 to figure the amount of your deduction; consult a tax professional if you need help. IRS Publication 584 can also provide you with additional information.

What about insurance deductibles?

With most homeowners insurance policies, you must pay a deductible before the insurer will reimburse you (partially or fully) for your loss. So, if you have a policy with a $500 deductible and you suffer a theft loss, you'll have to cover the first $500 of your loss



out of pocket. It's possible, though, that you'll be able to write off this deductible as a theft loss on your federal tax return (subject to the $100 and 10 percent rules).

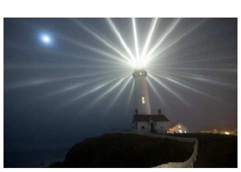
Can you normally deduct your homeowners insurance premiums on your tax return?

If you're like most people and use your home only for personal purposes, you can't deduct your homeowners insurance premiums on your tax return.

Deducting your homeowners insurance premiums when you have a home office

If you have a home office and qualify to take a home office deduction, you may be able to deduct some of your housing expenses, including part of your homeowners insurance premiums, on your federal income tax return. A special formula is used to determine which portion of your housing expenses may be traced or allocated to your home office, and you'll be able to deduct the same percentage of your homeowners insurance premiums. For example, if you can allocate 15 percent of your housing expenses to your home office, you'll be able to deduct 15 percent of your premiums. However, you cannot deduct homeowners insurance premiums, or other actual business housing expenses, if you use the simplified safe harbor home office deduction method.

If you have a home-based business, though, you should consider purchasing additional insurance. A standard homeowners policy typically won't provide coverage for your business equipment in the home, and it won't cover business-related personal liability losses at all (including the delivery person who slips and falls). You may be able to add an endorsement to your existing homeowners policy, buy a home-based business package policy, or buy individual business insurance. Those insurance premiums would then be fully deductible against business income.



Preparing for Parenthood

So you're about to become a parent. Congratulations! Parenthood may be one of the most rewarding experiences you'll ever have. As you prepare for life with your baby, here are a few things you should think about.

Reassess your budget

You'll have to buy a lot of things before (or soon after) your baby arrives. Buying a new crib, stroller, car seat, and other items you'll need could cost you well over $1,000. But if you do your homework, you can save money without sacrificing quality and safety. Discount stores or online retailers may offer some items at lower prices than you'll find elsewhere. If you don't mind used items, poke around for bargains at yard sales and flea markets. Finally, you'll probably get hand-me-downs and shower gifts from family and friends, so some items will be free.

Buying all of the gear you need is pretty much a one-shot deal, but you'll also have many ongoing expenses that will affect your monthly budget. These may include baby formula and food, diapers, clothing, child care (day care and/or baby-sitters), medical costs not covered by insurance (such as co-payments for doctor's visits), and increased housing costs (if you move to accommodate your larger family, for example). Redo your budget to figure out how much your total monthly expenses will increase. If you've never created a budget before, now's the time to start. If it looks like the added expenses will strain your budget, you'll want to think about ways to cut back on your expenses.

Review your insurance needs

You may incur high medical expenses during the pregnancy and delivery, so check the maternity coverage that your health insurance offers. And, of course, you'll have another person to insure after the birth. Good medical coverage for your baby is critical, because trips to the pediatrician, prescriptions, and other health-care costs can really add up over time. Fortunately, adding your baby to your employer-sponsored health plan or your own private plan is usually not a problem. Just ask your employer or insurer what you need to do (and when, usually within 30 days of birth or adoption) to make sure your baby will be covered from the moment of birth. An employer-sponsored plan (if available) is often the best way to insure your baby, because these plans typically provide good coverage at a lower cost. But expect additional premiums and out-of-pocket costs (such as co-payments) after adding your baby to any health plan.

It's also time to think about life insurance. Though it's unlikely that you'll die prematurely, you should be prepared anyway. Life insurance can protect your family's financial security if something unexpected happens to you. The death benefit can be used to pay off debts (e.g., a mortgage, car loan, credit cards), support your child, and meet other expenses. Some of the funds could also be set aside for your child's future education. If you don't have any life insurance, now may be a good time to get some. The cost

of an individual policy typically depends on your age, your health, whether you smoke, and other factors. Even if you already have life insurance (through your employer, for example), you should consider buying more now that you have a baby to care for. An insurance agent or financial professional can help you figure out how much coverage you need.

Update your estate plan

With a new baby to think about, you should update your will (or prepare a will, if you haven't already) with the help of an attorney. You'll need to address what will happen if an unexpected tragedy strikes. Who would be the best person to raise your child if both parents die? If the person you choose accepts this responsibility, you'll need to designate him or her in your will as your minor child's legal guardian. You should also name a contingent guardian, in case the primary guardian dies. Guardianship typically involves managing money and other assets that you leave your minor child. You may also want to ask your attorney about setting up a trust for your child and naming trustees separate from the suggested guardians.

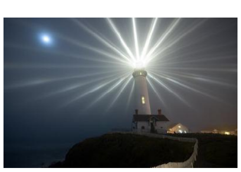
While working with your attorney, you should also consider completing advance medical directives. These documents allow you to designate someone to act on your behalf for medical and financial decisions if you should become incapacitated.

Start saving for your little one's education

The price of a college education is high and keeps getting higher. By the time your baby is college-bound, the annual cost of a good private college could be almost triple what it is today, including tuition, room and board, books, and so on. How will you afford this? Your child may receive financial aid (e.g., grants, scholarships, and loans), but you need to plan in case aid is unavailable or insufficient. Set up a college fund to save for your child's education. You can arrange for funds to be invested in the account(s) that you choose. You can also suggest that family members who want to give gifts could contribute directly to this account. Start as soon as possible (it's never too early), and save as much as your budget permits. Many different savings vehicles are available for this purpose, some of which have tax advantages. Talk to a financial professional about which ones are best for you.

Don't forget about your taxes

There's no way around it: Having children costs money. However, you may be entitled to some tax breaks that can help defray the cost of raising your child. You may qualify for one or more child-related tax credits: the child tax credit, the child and dependent care credit (if you have qualifying child-care expenses), and the earned income credit (if your annual income is below a certain level). For more information about tax issues, talk to a tax professional.



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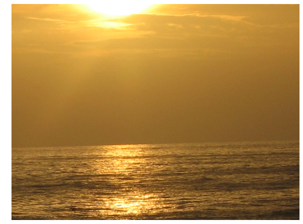

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