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James V Sadrianna PA. - November 2021 Newsletter

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One of your insurance options could be a better fit for your family and might even help reduce your overall health-care costs.

Employer Open Enrollment: Make Benefit Choices That Work for You

Open enrollment is the window of time when employers introduce changes to their benefit offerings for the upcoming plan year. If you're employed, this is your once-a-year chance to make important decisions that will affect your health-care choices and your finances.

Even if you are satisfied with your current health plan, it may no longer be the most cost-effective option. Before you make any benefit elections, take plenty of time to review the information provided by your employer. You should also consider how your life has changed over the last year and any plans or potential developments for 2022.

Decipher Your Health Plan Options

The details matter when it comes to selecting a suitable health plan. One of your options could be a better fit for you (or your family) and might even help reduce your overall health-care costs. But you will have to look beyond the monthly premiums. Policies with lower premiums tend to have more restrictions or higher out-of-pocket costs (such as copays, coinsurance, and deductibles) when you do seek care for a health issue.

To help you weigh the tradeoffs, here is a comparison of the five main types of health plans. It should also help demystify some of the terminology and acronyms used so often across the health insurance landscape.

Health maintenance organization (HMO). Coverage is limited to care from physicians, other medical providers, and facilities within the HMO network (except in an emergency). You choose a primary-care physician (PCP) who will decide whether to approve or deny any request for a referral to a specialist.

Point of service (POS) plan. Out-of-network care is available, but you will pay more than you would for in-network services. As with an HMO, you must have a referral from a PCP to see a specialist. POS premiums tend to be a little bit higher than HMO premiums.

Exclusive provider organization (EPO). Services are covered only if you use medical providers and facilities in the plan's network, but you do not need a referral to see a specialist. Premiums are typically higher than an HMO, but lower than a PPO.

Preferred provider organization (PPO). You have the freedom to see any health providers you choose without a referral, but there are financial incentives to seek care from PPO physicians and hospitals (a larger percentage of the cost will be covered by the plan). A PPO usually has a higher premium than an HMO, EPO, or POS plan and often has a deductible.

A deductible is the amount you must pay before insurance payments kick in. Preventive care (such as annual visits and recommended screenings) is typically covered free of charge, regardless of whether the deductible has been met.

High-deductible health plan (HDHP). In return for significantly lower premiums, you'll pay more out-of-pocket for medical services until you reach the annual deductible. HDHP deductibles start at $1,400 for an individual and $2,800 for family coverage in 2022, and can be much higher. Care will be less expensive if you use providers in the plan's network, and your upfront cost could be reduced through the insurer's negotiated rate.

An HDHP is designed to be paired with a health savings account (HSA), to which your employer may contribute funds toward the deductible. You can also elect to contribute to your HSA through pre-tax payroll deductions or make tax-deductible contributions directly to the HSA provider, up to the annual limit ($3,650 for an individual or $7,300 for family coverage in 2022, plus $1,000 for those 55+).

HSA funds, including any earnings if the account has an investment option, can be withdrawn free of federal income tax and penalties if the money is spent on qualified health-care expenses. (Some states do not follow federal tax rules on HSAs.) Unspent balances can be retained in the account indefinitely and used to pay future medical expenses, whether you are enrolled in an HDHP or not. If you change employers or retire, the funds can be rolled over to a new HSA.

Three Steps to a Sound Decision

Start by adding up your total expenses (premiums, copays, coinsurance, deductibles) under each plan offered by your employer, based on last year's usage. Your employer's benefit materials may include an online calculator to help you compare plans by taking factors such as your chronic health conditions and regular medications into account.

If you are married, you may need to coordinate two sets of workplace benefits. Many companies apply a surcharge to encourage a worker's spouse to use other available coverage, so look at the costs and benefits of having both of you on the same plan versus individual coverage from each employer. If you have children, compare what it would cost to cover them under each spouse's plan.

Before enrolling in a plan, check to see if your preferred health-care providers are included in the network.

Tame Taxes with a Flexible Spending Account

If you elect to open an employer-provided health and/or dependent-care flexible spending account (FSA), the money you contribute via payroll deduction is not subject to federal income and Social Security taxes (nor generally to state and local income taxes). Using these tax-free dollars to pay for health-care costs not covered by insurance or for dependent-care expenses could save you about 30% or more, depending on your tax bracket.

The federal limit for contributions to a health FSA was $2,750 in 2021 and should be similar for 2022. Some employers set lower limits. (The official limit has not been announced by the IRS). You can use the funds for a broad range of qualified medical, dental, and vision expenses.

With a dependent-care FSA, you can set aside up to $5,000 a year (per household) to cover eligible child-care costs for qualifying children age 12 or younger. The tax savings could help offset some of the costs paid for a nanny, babysitter, day care, preschool, or day camp, but only if the services are used so you (or a spouse) can work.

One drawback of health and dependent-care FSAs is that they are typically subject to the use-it-or-lose-it rule, which requires you to spend everything in your account by the end of the calendar year or risk losing the money. Some employers allow certain amounts (up to $550) to be carried over to the following plan year or offer a grace period up to 2½ months. Still, you must estimate your expenses in advance, and your predictions could turn out to be way off base.

Legislation passed during the pandemic allows workers to carry over any unused FSA funds from 2021 into 2022, as long as the employer opts in to this temporary change. If you have leftover money in an FSA, you should consider your account balance and your employer's carryover policies when deciding on your contribution election for 2022.

Take Advantage of Valuable Perks

A change in the tax code enacted at the end of 2020 made it possible for employers to offer student debt assistance as a tax-free employee benefit through 2025, spurring more companies to add it to their menu of benefit options. A 2021 survey found that 17% of employers now offer student debt assistance, and 31% are planning to do so in the future. Many employers target a student debt assistance benefit of $100 per month, which doesn't sound like much, but it adds up.[1] For example, an employee with $31,000 in student loans who is paying them off over 10 years at a 6% interest rate would save about $3,000 in interest and get out of debt 2½ years faster.

Many employers provide access to voluntary benefits such as dental coverage, vision coverage, disability insurance, life insurance, and long-term care insurance. Even if your employer doesn't contribute toward the premium cost, you may be able to pay premiums conveniently through payroll deduction. Your employer may also offer discounts on health-related products and services, such as fitness equipment or gym memberships, and other wellness incentives, like a monetary reward for completing a health assessment.

1) CNBC, September 28, 2021

Where can you get more information?

Determining what coverage you have now and comparing it to other Medicare plans can be confusing and complicated. Pay attention to notices you receive from Medicare and from your plan, and take advantage of available help. You can call 1-800-MEDICARE or visit the Medicare website, medicare.gov, to use the Plan Finder and other tools that can make comparing plans easier.

You can also call your State Health Insurance Assistance Program (SHIP) for free, personalized counseling. Visit shiptacenter.org or call the toll-free Medicare number to find the phone number for your state.

Medicare Open Enrollment for 2022 Begins October 15

Medicare beneficiaries can make new choices and pick plans that work best for them during the annual Medicare Open Enrollment Period. Each year, Medicare plan costs and coverage typically change. In addition, your health-care needs may have changed over the past year. The Open Enrollment Period — which begins on October 15 and runs through December 7 — is your opportunity to switch your current Medicare health and prescription drug plans to ones that better suit your needs.

During this period, you can:

- Switch from Original Medicare to a Medicare Advantage Plan
- Switch from a Medicare Advantage Plan to Original Medicare
- Change from one Medicare Advantage Plan to a different Medicare Advantage Plan
- Change from a Medicare Advantage Plan that offers prescription drug coverage to a Medicare Advantage Plan that doesn't offer prescription drug coverage
- Switch from a Medicare Advantage Plan that doesn't offer prescription drug coverage to a Medicare Advantage Plan that does offer prescription drug coverage
- Join a Medicare prescription drug plan (Part D)
- Switch from one Part D plan to another Part D plan
- Drop your Part D coverage altogether

Any changes made during Open Enrollment are effective as of January 1, 2022.

Review plan options

Now is a good time to review your current Medicare benefits to see if they're still right for you. Are you satisfied with the coverage and level of care you're receiving with your current plan? Are your premium costs or out-of-pocket expenses too high? Has your health changed? Do you anticipate needing medical care or treatment, or new or pricier prescription drugs?

If your current plan doesn't meet your health-care needs or fit your budget, you can switch to a new plan. If you find that you're satisfied with your current Medicare plan and it's still being offered, you don't have to do anything. The coverage you have will continue.

Information on costs and benefits

The Centers for Medicare & Medicaid Services (CMS) has announced that the average monthly premium for Medicare Advantage plans will be $19, and the average monthly premium for Part D prescription drug coverage will be $33. CMS will announce 2022 premiums, deductibles, and coinsurance amounts for the Medicare Part A and Part B programs soon.

You can find more information on Medicare benefits in the *Medicare & You 2022 Handbook* on medicare.gov.

In addition to eliminating the conversion of nondeductible contributions from traditional IRAs to Roth IRAs, the proposed legislation includes a similar prohibition on the conversion of after-tax 401(k) contributions (so-called mega-back-door Roth conversions), as well as other retirement-related provisions affecting those with large account balances ($10 million and higher) and high incomes (more than $400,000 for single taxpayers and more than $450,000 for joint filers).

Retirement Investors: This Back Door May Be Closing for Good

Among the many provisions in the multi-trillion-dollar legislative package being debated in Congress is a provision that would eliminate a strategy that allows high-income investors to pursue tax-free retirement income: the so-called back-door Roth IRA. The next few months may present the last chance to take advantage of this opportunity.

Roth IRA Background

Since its introduction in 1997, the Roth IRA has become an attractive investment vehicle due to the potential to build a sizable, tax-free nest egg. Although contributions to a Roth IRA are not tax deductible, any earnings in the account grow tax-free as long as future distributions are qualified. A qualified distribution is one made after the Roth account has been held for five years and after the account holder reaches age 59½, becomes disabled, dies, or uses the funds for the purchase of a first home ($10,000 lifetime limit).

Unlike other retirement savings accounts, original owners of Roth IRAs are not subject to required minimum distributions at age 72 — another potentially tax-beneficial perk that makes Roth IRAs appealing in estate planning strategies. (Beneficiaries are subject to distribution rules.)

However, as initially passed, the 1997 legislation rendered it impossible for high-income taxpayers to enjoy Roth IRAs. Individuals and married taxpayers whose income exceeded certain thresholds could neither contribute to a Roth IRA nor convert traditional IRA assets to a Roth IRA.

A Loophole Emerges

Nearly 10 years after the Roth's introduction, the Tax Increase Prevention and Reconciliation Act of 2005 ushered in a change that relaxed the conversion rules beginning in 2010; that is, as of that year, the income limits for a Roth conversion were eliminated, which meant that anyone could convert traditional IRA assets to a Roth IRA. (Of course, a conversion results in a tax obligation on deductible contributions and earnings that have previously accrued in the traditional IRA.)

One perhaps unintended consequence of this change was the emergence of a new strategy that has been utilized ever since: High-income individuals could make full, annual, nondeductible contributions to a traditional IRA and convert those contribution dollars to a Roth. If the account holders had no other IRAs (see note below) and the conversion was executed quickly enough so that no earnings were able to accrue, the transaction could potentially be a tax-free way for otherwise ineligible taxpayers to fund a Roth IRA. This move became known as the back-door Roth IRA.

(Note: When calculating a tax obligation on a Roth conversion, investors have to aggregate all of their IRAs, including SEP and SIMPLE IRAs, before determining the amount. For example, say an investor has $100,000 in several different traditional IRAs, 80% of which is attributed to deductible contributions and earnings. If that investor chose to convert *any* traditional IRA assets — even recent after-tax contributions — to a Roth IRA, 80% of the converted funds would be taxable. This is known as the "pro-rata rule.")

Current Roth IRA Income Limits

For 2021, you can generally contribute up to $6,000 to an IRA (traditional, Roth, or a combination of both); $7,000 if you'll be age 50 or older by December 31. However, your ability to make contributions to a Roth

IRA is limited or eliminated if your modified adjusted gross income, or MAGI, falls within or exceeds the parameters shown below.

If your federal filing status is:	Your 2021 Roth IRA contribution is reduced if your MAGI is:	You can't contribute to a Roth IRA for 2021 if your MAGI is:
Single or head of household	More than $125,000 but less than $140,000	$140,000 or more
Married filing jointly or qualifying widow(er)	More than $198,000 but less than $208,000	$208,000 or more
Married filing separately	Less than $10,000	$10,000 or more

Note that your contributions generally can't exceed your earned income for the year (special rules apply to spousal Roth IRAs).

Now or Never ... Maybe

While no one knows for sure what may come of the legislative debates, the current proposal would prohibit the conversion of nondeductible contributions from a traditional IRA after December 31, 2021. If you expect your MAGI to exceed this year's thresholds and you'd like to fund a Roth IRA for 2021, the next few months may be your last chance to use the back-door strategy. Contact your financial and tax professionals for more information.

There is no assurance that working with a financial professional will improve investment results.

You can make 2021 IRA contributions up until April 15, 2022, but if the legislation is enacted, a Roth conversion involving nondeductible contributions would have to be conducted by December 31, 2021.

Keep in mind that a separate five-year rule applies to the principal amount of each Roth IRA conversion you make, unless an exception applies.

Converting Your After-Tax 401(k) Dollars to a Roth IRA

Here's the dilemma: You have a traditional 401(k) that contains both after-tax and pre-tax dollars. You'd like to receive a distribution from the plan and convert only the after-tax dollars to a Roth IRA. By rolling over/converting only the after-tax dollars to a Roth IRA, you hope to avoid paying any income tax on the conversion.

For example, let's say your 401(k) plan distribution is $10,000, consisting of $8,000 of pre-tax dollars and $2,000 of after-tax dollars. Can you simply instruct the trustee to directly roll the $8,000 of pre-tax dollars to a traditional IRA and the remaining $2,000 of after-tax dollars to a Roth IRA?

In the past, many trustees allowed you to do just that. But in recent years the IRS had suggested that this result could not be achieved with multiple direct rollovers. Instead, according to the IRS, each rollover would have to carry with it a pro-rata amount of pre-tax and after-tax dollars. The legal basis for this position, however, was not entirely clear.

IRS Notice 2014-54

Thankfully, in Notice 2014-54 (and related proposed regulations), the IRS has backed away from its prior position. The Notice makes it clear that you can split a distribution from your 401(k) plan and directly roll over only the pre-tax dollars to a traditional IRA (with no current tax liability) and only the after-tax dollars to a Roth IRA (with no conversion tax). The IRS guidance also applies to 403(b) and 457(b) plans.

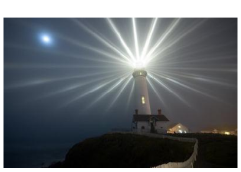
When applying Notice 2014-54, it's important to understand some basic rules (also outlined in the Notice). First, you have to understand how to calculate the taxable portion of your distribution. This is easy if you receive a total distribution — the nontaxable portion is your after-tax contributions, and the taxable portion is the balance of your account. But if you're receiving less than a total distribution, you have to perform a pro-rata calculation.

This is best understood using an example. Assume your 401(k) account is $100,000, consisting of $60,000 (six-tenths) of pre-tax dollars and $40,000 (four-tenths) of after-tax dollars. You request a $40,000 distribution. Of this $40,000, six-tenths, or $24,000, will be taxable pre-tax dollars, and four-tenths, or $16,000, will be nontaxable after-tax dollars. What this means is that you can't, for example, simply request a distribution of $40,000 consisting only of your after-tax dollars. The Notice requires that you treat all distributions you receive at the same time as a single distribution when you perform this pro-rata calculation (even if you subsequently roll those distributions into separate IRAs).

Taking this example a step further, could you now direct the trustee to directly transfer the $16,000 of after-tax dollars to a Roth IRA (with no conversion tax) and send the remaining $24,000 to you in a taxable distribution? The answer is no, and this leads to a second basic rule described in the Notice: Any rollovers you make from a 401(k) plan distribution are deemed to come first from your pre-tax dollars, and then, only after these dollars are fully used up, from your after-tax dollars. If you're rolling your distribution over into several different accounts, you get to decide which retirement vehicle receives your pre-tax dollars first.

It's these new rules that allow you to accomplish your goal of rolling over only the after-tax portion of your 401(k) plan distribution into a Roth IRA. Going back to our example, these rules make it clear that you can instruct the 401(k) plan trustee to transfer only your pre-tax dollars — $24,000 — to your traditional IRA, leaving the remaining $16,000 — all after-tax dollars — to be rolled over to your Roth IRA in a tax-free conversion.

[Make sure you understand all the pros and cons when evaluating whether to initiate a rollover from an employer plan to an IRA. Always be sure to (1) ask about possible surrender charges that may be imposed by your employer plan, or new surrender charges that your IRA may impose, (2) compare investment fees and expenses charged by your IRA (and investment funds) with those charged by your employer plan (if any), and (3) understand any accumulated rights or guarantees that you may be giving up by transferring funds out of your employer plan.]



Leaving Your Job? Your Retirement Savings Plan Options

Are you leaving your job and considering whether to take a distribution from your 401(k), 403(b), or governmental 457(b) plan? if so, make sure you've considered all your options.

In general, you have the following four options when you're eligible to receive a distribution from your employer retirement savings plan.[1]

Option 1: Leave the money in the plan

This is the easiest option — you don't do anything at all.

- Your account can potentially benefit from continued tax-deferred growth (or potentially tax-free growth in the case of Roth accounts)
- While IRAs typically provide more investment choices than an employer plan, there may be certain investment opportunities in your particular plan that you can't replicate with an IRA
- You can receive penalty-free distributions as early as age 55 (50 for qualified public safety employees) compared with age 59½ for IRAs
- Qualified plans generally provide greater creditor protection than IRAs

Note: This may not be an option if your vested plan balance is $5,000 or less; if you've reached your plan's normal retirement age; or if the payment is a required minimum distribution. Consult your plan's terms.

Option 2: No rollover — take the distribution in cash (and securities if applicable)

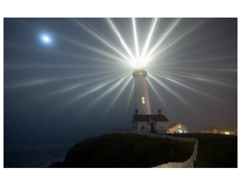
Most plans allow you to take a lump-sum distribution of your account balance.

- This move defeats the primary purpose of your plan — saving money for retirement; you risk not having enough money at retirement to cover your expenses
- All or part of your distribution may be subject to federal (and possibly state) taxes, and the taxable portion may be subject to an additional 10% early distribution penalty tax if you haven't reached age 55 (50 for qualified public safety employees); this may significantly reduce the amount you'll actually receive
- You'll lose the benefit of continued tax-deferred (or tax-free) growth

Note: If your distribution includes employer stock or other securities, special tax rules may apply that can make taking a distribution more advantageous than making a rollover. Consult a tax professional.

Option 3: Roll the funds over to an IRA

Distributions from designated Roth accounts can be rolled over only to a Roth IRA; distributions of non-Roth funds can be made to



a traditional IRA or "converted" to a Roth IRA.

- Your account can potentially benefit from continued tax-deferred (or tax-free) growth
- There are generally more investment choices with an IRA than with an employer plan
- You can freely move your money among the various investments offered by your IRA trustee, and you can freely move your IRA dollars among different IRA trustees/custodians (using direct transfers)
- With an IRA, the timing and amount of distributions are generally at your discretion [however you must start taking required minimum distributions (RMDs) from traditional IRAs after reaching age 72]
- No required distributions must be made from Roth IRAs during your lifetime

Option 4: Roll the funds over to your new employer's plan (if the plan accepts rollovers)

- This move offers all of the advantages of Option 1, above
- You can consolidate your employer plan retirement savings
- You may be eligible for a plan loan, and you may be able to delay required distributions beyond age 72

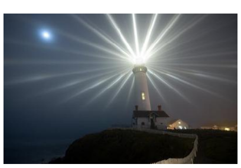
One of the most common questions people ask is: Should I roll over my retirement money to an IRA or to another employer's retirement plan? Assuming both options are available to you, there is no right or wrong answer to this question. There are strong arguments to be made on both sides. You need to weigh all of the factors and make a decision based on your own needs and priorities.[2]

When evaluating whether to initiate a rollover, always be sure to (1) ask about possible surrender charges that may be imposed by your existing employer plan, or new surrender charges that your IRA or new plan may impose; (2) compare investment fees and expenses charged by your IRA (and investment funds) or new plan with those charged by your existing employer plan (if any); and (3) understand any accumulated rights or guarantees that you may be giving up by transferring funds out of your employer plan. It is best to have a professional assist you with this, because the decision you make may have significant consequences — both now and in the future.

Keep in mind that you don't have to roll over your entire distribution. You can roll over whatever portion you wish. If you roll over only part of a distribution that includes taxable and nontaxable amounts, the amount you roll over is treated as coming first from the taxable part of the distribution.

[1] Special rules apply if you're the beneficiary of a plan participant.

[2] If your distribution is eligible for rollover, you'll receive a statement from your employer outlining your rollover options. Read that statement carefully. You cannot roll over hardship withdrawals, required minimum distributions, substantially equal periodic payments, corrective distributions, and certain other payments.



Annuities and Retirement Planning

You may have heard that IRAs and employer-sponsored plans [e.g., 401(k)s] are the best ways to invest for retirement. That's true for many people, but what if you've maxed out your contributions to those accounts and want to save more? An annuity may be an appropriate investment to look into.

Get the lay of the land

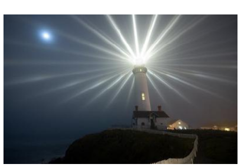
An annuity is a tax-deferred insurance contract. The details on how it works vary, but here's the general idea. You invest your money (either a lump sum or a series of contributions) with a life insurance company that sells annuities (the annuity issuer). The period when you are funding the annuity is known as the accumulation phase. In exchange for your investment, the annuity issuer promises to make payments to you or a named beneficiary at some point in the future. The period when you are receiving payments from the annuity is known as the distribution phase. Chances are, you'll start receiving payments after you retire. Annuities may be subject to certain charges and expenses, including mortality charges, surrender charges, administrative fees, and other charges.

Understand your payout options

Understanding your annuity payout options is very important. Keep in mind that payments are based on the claims-paying ability of the issuer. You want to be sure that the payments you receive will meet your income needs during retirement. Here are some of the most common payout options:

- You surrender the annuity and receive a lump-sum payment of all of the money you have accumulated.
- You receive payments from the annuity over a specific number of years, typically between 5 and 20. If you die before this "period certain" is up, your beneficiary will receive the remaining payments.
- You receive payments from the annuity for your entire lifetime. You can't outlive the payments (no matter how long you live), but there will typically be no survivor payments after you die.
- You combine a lifetime annuity with a period certain annuity. This means that you receive payments for the longer of your lifetime or the time period chosen. Again, if you die before the period certain is up, your beneficiary will receive the remaining payments.
- You elect a joint and survivor annuity so that payments last for the combined life of you and another person, usually your spouse. When one of you dies, the survivor receives payments for the rest of his or her life.

When you surrender the annuity for a lump sum, your tax bill on the investment earnings will be due all in one year. The other options on this list provide you with a guaranteed stream of income (subject to the claims-paying ability of the issuer). They're known as annuitization options because you've elected to spread payments over a period of years. Part of each payment is a return of your principal investment. The other part is taxable investment earnings. You typically receive payments at regular



intervals throughout the year (usually monthly, but sometimes quarterly or yearly). The amount of each payment depends on the amount of your principal investment, the particular type of annuity, your selected payout option, the length of the payout period, and your age if payments are to be made over your lifetime.

Consider the pros and cons

An annuity can often be a great addition to your retirement portfolio. Here are some reasons to consider investing in an annuity:

- Your investment earnings are tax deferred as long as they remain in the annuity. You don't pay income tax on those earnings until they are paid out to you.
- An annuity may be free from the claims of your creditors in some states.
- If you die with an annuity, the annuity's death benefit will pass to your beneficiary without having to go through probate.
- Your annuity can be a reliable source of retirement income, and you have some freedom to decide how you'll receive that income.
- You don't have to meet income tests or other criteria to invest in an annuity.
- You're not subject to an annual contribution limit, unlike IRAs and employer-sponsored plans. You can contribute as much or as little as you like in any given year.
- You're not required to start taking distributions from an annuity at age 72 (the required minimum distribution age for IRAs and employer-sponsored plans). You can typically postpone payments until you need the income.

But annuities aren't for everyone. Here are some potential drawbacks:

- Contributions to nonqualified annuities are made with after-tax dollars and are not tax deductible.
- Once you've elected to annuitize payments, you usually can't change them, but there are some exceptions.
- You can take your money from an annuity before you start receiving payments, but your annuity issuer may impose a surrender charge if you withdraw your money within a certain number of years (e.g., seven) after your original investment.
- You may have to pay other costs when you invest in an annuity (e.g., annual fees, investment management fees, insurance expenses).
- You may be subject to a 10% federal penalty tax (in addition to any regular income tax) if you withdraw earnings from an annuity before age 59½, unless you meet one of the exceptions to this rule.
- Investment gains are taxed at ordinary income tax rates, not at the lower capital gains rate.

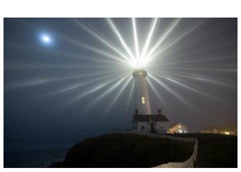
Choose the right type of annuity

If you think that an annuity is right for you, your next step is to decide which type of annuity. Overwhelmed by all of the annuity products on the market today? Don't be. In fact, most annuities fit into a small handful of categories. Your choices basically revolve around two key questions.

First, how soon would you like annuity payments to begin? That probably depends on how close you are to retiring. If you're near retirement or already retired, an immediate annuity may be your best bet. This type of annuity starts making payments to you shortly after you buy the annuity, typically within a year or less. But what if you're younger, and retirement is still a long-term goal? Then you're probably better off with a deferred annuity. As the name suggests, this type of annuity lets you postpone payments until a later time, even if that's many years down the road.

Second, how would you like your money invested? With a fixed annuity, the annuity issuer determines an interest rate to credit to your investment account. An immediate fixed annuity guarantees a particular rate, and your payment amount never varies. A deferred fixed annuity guarantees your rate for a certain number of years; your rate then fluctuates from year to year as market interest rates change. A variable annuity, whether immediate or deferred, gives you more control and the chance to earn a better rate of return (although with a greater potential for gain comes a greater potential for loss of principal). You select your own investments from the subaccounts that the annuity issuer offers. Your payment amount will vary based on how your investments perform.

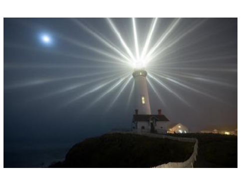
Note: *A variable annuity is a long-term investment vehicle designed for retirement purposes. Generally, annuity contracts have limitations, exclusions, holding periods, termination provisions, terms for keeping the annuity in force, and fees and charges which can include mortality and expense charges, account fees, sales and surrender charges, investment management fees, administrative fees, and charges for optional benefits. Withdrawals reduce annuity contract (living and death) benefits and values. Variable annuities are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing company. The investment return and principal value of an investment option are not guaranteed. Because variable annuity investment options fluctuate with changes in market conditions, the principal may be worth more or less than the original amount invested when the annuity is surrendered.*



Variable annuities are sold by prospectus. You should consider the investment objectives, risk, charges and expenses, and underlying investment options carefully before investing. The prospectus, which contains this and other information about the variable annuity, can be obtained from the insurance company issuing the variable annuity or from your financial professional. You should read the prospectus carefully before you invest.

Shop around

It pays to shop around for the right annuity. In fact, doing a little homework could save you hundreds of dollars a year or more. Why? Rates of return and costs can vary widely between different annuities. You'll also want to shop around for a reputable, financially sound annuity issuer. There are firms that make a business of rating insurance companies based on their financial strength, investment performance, and other factors. Consider checking out these ratings.



Even if you won't depend on Social Security to survive, the benefits could amount to a meaningful portion of your retirement income.

Social Security's Uncertain Future: What You Should Know

Social Security is a pay-as-you-go system, which means today's workers are paying taxes for the benefits received by today's retirees. However, demographic trends such as lower birth rates, higher retirement rates, and longer life spans are causing long-run fiscal challenges. There are simply not enough U.S. workers to support the growing number of beneficiaries. Social Security is not in danger of collapsing, but the clock is ticking on the program's ability to pay full benefits.

Each year, the Trustees of the Social Security Trust Funds provide a detailed report to Congress that tracks the program's current financial condition and projected financial outlook. In the latest report, released in August 2021, the Trustees estimate that the retirement program will have funds to pay full benefits only until 2033, unless Congress acts to shore up the program. This day of reckoning is expected to come one year sooner than previously projected because of the economic fallout from the COVID-19 pandemic.

Report Highlights

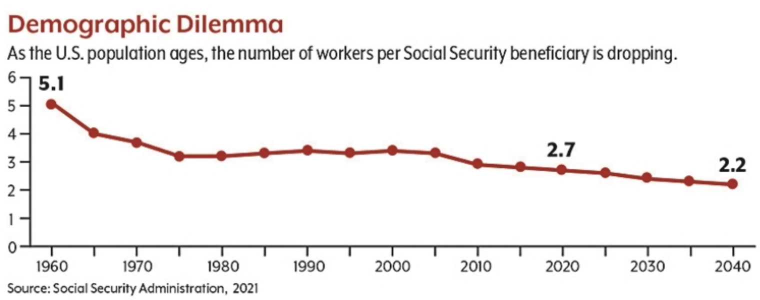
Social Security consists of two programs, each with its own financial account (trust fund) that holds the payroll taxes that are collected to pay benefits. Retired workers, their families, and survivors of workers receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program; disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program. The combined programs are referred to as OASDI.

Combined OASDI costs are projected to exceed total income (including interest) in 2021, and the Treasury will withdraw reserves to help pay benefits. The Trustees project that the combined reserves will be depleted in 2034. After that, payroll tax revenue alone should be sufficient to pay about 78% of scheduled benefits. OASDI projections are hypothetical, because the OASI and DI Trusts are separate, and generally one program's taxes and reserves cannot be used to fund the other program.

The OASI Trust Fund, considered separately, is projected to be depleted in 2033. Payroll tax revenue alone would then be sufficient to pay 76% of scheduled OASI benefits.

The DI Trust Fund is projected to be depleted in 2057, eight years sooner than estimated in last year's report. Once the trust fund is depleted, payroll tax revenue alone would be sufficient to pay 91% of scheduled benefits.

All projections are based on current conditions, subject to change, and may not come to pass.



Proposed Fixes

The Trustees continue to urge Congress to address the financial challenges facing these programs soon, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public. Combining some of the following solutions may also help soften the impact of any one solution.

- Raising the current Social Security payroll tax rate (currently 12.4%). Half is paid by the employee and half by the employer (self-employed individuals pay the full 12.4%). An immediate and permanent payroll tax increase of 3.36 percentage points to 15.76% would be needed to cover the long-range revenue shortfall (4.20 percentage points to 16.60% if the increase started in 2034).
- Raising or eliminating the ceiling on wages subject to Social Security payroll taxes ($142,800 in 2021).
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later).
- Reducing future benefits. To address the long-term revenue shortfall, scheduled benefits would have to be immediately and permanently reduced by about 21% for all current and future beneficiaries, or by about 25% if reductions were applied only to those who initially become eligible for benefits in 2021 or later.
- Changing the benefit formula that is used to calculate benefits.
- Calculating the annual cost-of-living adjustment for benefits differently.

Pandemic Impact

The 2021 Trustees Report states that Social Security's short-term finances were "significantly affected" by the pandemic and the severe but short-lived recession in 2020. "Employment, earnings, interest rates, and GDP [gross domestic product] dropped substantially in the second calendar quarter of 2020 and are assumed to rise gradually thereafter toward recovery by 2023, with the level of worker productivity and thus GDP assumed to be permanently lowered by 1%." The projections also accounted for elevated mortality rates over the period 2020 through 2023 and delays in births and immigration. Because payroll tax revenues are rebounding quickly, the damage to the program was not as great as many feared.

Sharp increases in consumer prices in July and August suggest that beneficiaries might receive the highest annual benefit increase since 1983 starting in January 2022. The Social Security Administration's chief actuary has estimated that the 2022 cost-of-living adjustment (COLA) will be close to 6.0%.[1] *(The official COLA had not been announced at the time of this writing.)*

What's at Stake for You?

The Census Bureau has estimated that 2.8 million Americans ages 55 and older filed for Social Security benefits earlier than they had anticipated because of COVID-19.[2] Many older workers may have been pushed into retirement after losing their jobs or because they had health concerns.

If you regret starting your Social Security benefits earlier than planned, you can withdraw your application within 12 months of your original claim and reapply later. But you can do this only once, and you must repay all the benefits you received. Otherwise, if you've reached full retirement age, you may voluntarily suspend benefits and restart them later. Either of these moves would result in a higher future benefit.

Even if you won't depend on Social Security to survive, the benefits could amount to a meaningful portion of your retirement income. An estimate of your monthly retirement benefit can be found on your Social Security Statement, which can be accessed when you sign up for a *my* Social Security account on SSA.gov. If you aren't receiving benefits and haven't registered for an online account, you should receive an annual statement in the mail starting at age 60.

No matter what the future holds for Social Security, your retirement destiny is still in your hands. But it may be more important than ever to save as much as possible for retirement while you are working. Don't wait until you have one foot out the door to consider your retirement income strategy.

All information is from the 2021 Social Security Trustees Report, except for:

1) AARP, September 15, 2021

2) U.S. Census Bureau, 2021

Social Security Disability Benefits

Like most people, you probably don't expect to become disabled. However, according to the Social Security Administration (SSA), studies show that 1 in 4 of today's 20 year-olds will become disabled before reaching full retirement age. (Source: SSA Publication 05-10029, Disability Benefits, July 2019) That's why it's important to understand what disability benefits you may be entitled to under Social Security.

The SSA administers two programs that pay disability benefits. The Social Security Disability Insurance (SSDI) program pays benefits to qualified individuals who are under full retirement age, regardless of their income. The Supplemental Security Income (SSI) program pays benefits to qualified individuals with limited income. Only the SSDI program is discussed here.

To qualify for benefits, you must meet a strict definition of disability

Because the definition of disability that the SSA uses is strict, it's hard to qualify for Social Security disability benefits. To receive benefits as an adult, you must have a physical or mental impairment that has lasted or is expected to last for at least 12 months or is expected to result in your death. Your impairment must also be severe enough to prevent you from performing any "substantial gainful activity" or, in other words, the work that you were doing when you became disabled or any other work.

The SSA has a list of impairments that are considered so severe that they automatically define you as disabled. If your condition is not on the list, the SSA must decide if it's severe enough.

When determining your ability to work, the SSA will consider your medical condition, age, education, past work experience, and transferable skills. If you're working, the amount of income that you are able to earn also plays a role. If your average monthly earnings from work exceed a maximum amount set by the SSA, you generally won't be considered disabled for Social Security purposes. Special rules and income limits apply if you're blind.

You'll also need to meet two earnings tests

In general, to get disability benefits, you must meet two different earnings tests. The first is a recent work test, based on your age at the time you became disabled. The second is a duration of work test to show that you worked long enough under Social Security. For a table that illustrates these requirements see SSA Publication 05-10029, Disability Benefits.

Your family members may also collect benefits

If you qualify for disability benefits, certain family members can also collect monthly benefits based on your work record. Eligible family members may include:

- Your spouse age 62 or older, if married at least one year
- Your former spouse age 62 or older (if you were married at least 10 years)
- Your spouse or former spouse of any age, if caring for your child who is under age 16 or disabled
- Your unmarried child under age 18 (or under 19 if still in high school)
- Your unmarried child older than 18 with a qualifying disability that started before age 22

Each eligible family member may receive a monthly check equal to as much as 50 percent of your basic benefit. This is in addition to your benefit — your check doesn't get reduced.

The amount of money that you'll receive depends on your Social Security earnings record

The amount of your monthly disability check is based on your average lifetime earnings. To view your earnings record and get an estimate of how much you would receive if you were disabled right now, sign up for a *my* Social Security account at the SSA's website, ssa.gov, so that you can view your Social Security Statement.

Eligibility for other state and federal benefits may affect the amount of your SSDI check. And because the SSA will periodically review your case and decide whether you are still disabled, your disability benefits may stop altogether. This will happen if your medical condition improves to the point that you're no longer considered disabled, or if you are able to earn a substantial amount of money. Finally, once you reach full retirement age, your disability benefits will automatically convert to Social Security retirement benefits (the amount is usually the same).

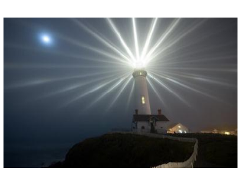
You should apply for benefits as soon as possible

You should apply for benefits as soon as you become disabled, and it appears that the disability will continue. Processing an application can take three to five months. Disability benefits will be paid for the sixth full month after the date your disability began.

You can file for benefits in person, online, or over the phone. You'll be asked to provide information such as your Social Security number, your birth or baptismal certificate, medical records, a work summary, and a copy of your most recent W-2 form, or if you're self-employed, a copy of your federal tax returns for the past year.

Once your application is complete and has been reviewed by your local Social Security office, it will be sent to the Disability Determination Services (DDS) office in your state. There, the DDS will determine whether you are disabled under Social Security rules. If your claim is approved, you'll receive a letter showing the amount of benefit that you'll receive and when your benefits will begin. If your claim is denied, you'll receive a letter explaining the decision and telling you how to appeal if you don't agree with it.

For more information on Social Security disability benefits, visit your local Social Security office, look at publications available on the SSA website, or call the SSA at (800) 772-1213.



Social Security Retirement Benefits

Social Security was originally intended to provide older Americans with continuing income after retirement. Today, though the scope of Social Security has been widened to include survivor, disability, and other benefits, retirement benefits are still the cornerstone of the program.

How do you qualify for retirement benefits?

When you work and pay Social Security taxes (FICA on some pay stubs), you earn Social Security credits. You can earn up to 4 credits each year. You generally need 40 credits (10 years of work) to be eligible for retirement benefits.

How much will your retirement benefit be?

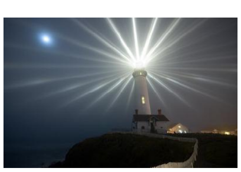
Your retirement benefit is based on your average earnings over your working career. Higher lifetime earnings result in higher benefits, so if you have some years of no earnings or low earnings, your benefit amount may be lower than if you had worked steadily. Your age at the time you start receiving benefits also affects your benefit amount. Although you can retire early at age 62, the longer you wait to retire (up to age 70), the higher your retirement benefit.

You can find out more about future Social Security benefits by signing up for a *my* Social Security account at the Social Security website, ssa.gov, so that you can view your online Social Security Statement. Your statement contains a detailed record of your earnings, as well as estimates of retirement, survivor, and disability benefits. If you're not registered for an online account and are not yet receiving benefits, you'll receive a statement in the mail every year, starting at age 60. You can also use the Retirement Estimator calculator on the Social Security website, as well as other benefit calculators that can help you estimate disability and survivor benefits.

Retiring at full retirement age

Your full retirement age depends on the year in which you were born.

If you were born in:	Your full retirement age is:
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months



1959	**66 and 10 months**
1960 and later	**67**

Tip: *If you were born on January 1 of any year, refer to the previous year to determine your full retirement age.*

If you retire at full retirement age, you'll receive an unreduced retirement benefit.

Retiring early will reduce your benefit

You can begin receiving Social Security benefits before your full retirement age, as early as age 62. However, if you retire early, your Social Security benefit will be less than if you wait until your full retirement age to begin receiving benefits. Your retirement benefit will be reduced by 5/9ths of 1 percent for every month between your retirement date and your full retirement age, up to 36 months, then by 5/12ths of 1 percent thereafter. For example, if your full retirement age is 67, you'll receive about 30 percent less if you retire at age 62 than if you wait until age 67 to retire. This reduction is permanent — you won't be eligible for a benefit increase once you reach full retirement age.

However, even though your monthly benefit will be less, you might receive the same or more total lifetime benefits as you would have had you waited until full retirement age to start collecting benefits. That's because even though you'll receive less per month, you might receive benefits over a longer period of time.

Delaying retirement will increase your benefit

For each month that you delay receiving Social Security retirement benefits past your full retirement age, your benefit will increase by a certain percentage. This percentage varies depending on your year of birth. For example, if you were born in 1943 or later, your benefit will increase 8 percent for each year that you delay receiving benefits, up until age 70. In addition, working past your full retirement age has another benefit: It allows you to add years of earnings to your Social Security record. As a result, you may receive a higher benefit when you do retire, especially if your earnings are higher than in previous years.

Working may affect your retirement benefit

You can work and still receive Social Security retirement benefits, but the income that you earn before you reach full retirement age may affect the amount of benefit that you receive. Here's how:

- If you're under full retirement age: $1 in benefits will be deducted for every $2 in earnings you have above the annual limit
- In the year you reach full retirement age: $1 in benefits will be deducted for every $3 you earn over the annual limit (a different limit applies here) until the month you reach full retirement age

Once you reach full retirement age, you can work and earn as much income as you want without reducing your Social Security retirement benefit. And keep in mind that if some of your benefits are withheld prior to your full retirement age, you'll generally receive a higher monthly benefit at full retirement age, because after retirement age the SSA recalculates your benefit every year and gives you credit for those withheld earnings

Retirement benefits for qualified family members

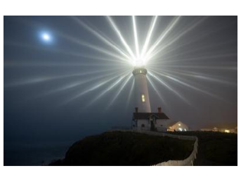
Even if your spouse has never worked outside your home or in a job covered by Social Security, he or she may be eligible for spousal benefits based on your Social Security earnings record. Other members of your family may also be eligible. Retirement benefits are generally paid to family members who relied on your income for financial support. If you're receiving retirement benefits, the members of your family who may be eligible for family benefits include:

- Your spouse age 62 or older, if married at least one year
- Your former spouse age 62 or older, if you were married at least 10 years
- Your spouse or former spouse at any age, if caring for your child who is under age 16 or disabled
- Your unmarried child under age 18
- Your unmarried child under age 19 if a full-time student (through grade 12) or over age 18 and disabled if disability began before age 22

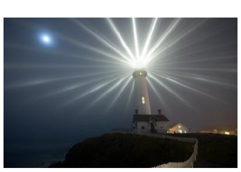
Your eligible family members will receive a monthly benefit that is as much as 50 percent of your benefit. However, the amount that can be paid each month to a family is limited. The total benefit that your family can receive based on your earnings record is about 150 to 180 percent of your full retirement benefit amount. If the total family benefit exceeds this limit, each family member's benefit will be reduced proportionately. Your benefit won't be affected.

How do you apply for Social Security retirement benefits?

The SSA recommends that you apply three months before you want your benefits to start. To apply, fill out an application on the



SSA website, call the SSA at (800) 772-1213, or make an appointment at your local SSA office.



Social Security Survivor Benefits

When you think of Social Security, you probably think of retirement. However, Social Security can also provide much-needed income to your family members when you die, making their financial lives easier.

Your family members may be eligible to receive survivor benefits if you worked, paid Social Security taxes, and earned enough work credits. The number of credits you need depends on your age when you die. The younger you are when you die, the fewer credits you'll need for survivor benefits. However, no one needs more than 40 credits (10 years of work) to be "fully insured" for benefits. And under a special rule, if you're only "currently insured" at the time of your death (i.e., you have 6 credits in the 13 quarters prior to your death), your children and your spouse who is caring for them can still receive benefits.

Survivor benefits may be paid to:

- Your spouse age 60 or older (50 or older if disabled)
- Your spouse at any age, if caring for your child who is under age 16 or disabled
- Your ex-spouse age 60 or over (50 or older if disabled) who was married to you for at least 10 years
- Your ex-spouse at any age, if caring for your child who is under age 16 or disabled
- Your unmarried children under 18
- Your unmarried children under 19, if attending school full time (up to grade 12)
- Your dependent parents age 62 or older

This is a general overview--the rules are more complex. For more information on eligibility requirements, contact the Social Security Administration (SSA) at (800) 772-1213.

How much will your survivors receive?

An eligible family member will receive a monthly survivor benefit based on your average lifetime earnings. The higher your earnings, the higher the benefit. This monthly benefit is equal to a percentage of your basic Social Security benefit. The percentage depends on your survivor's age and relationship to you.

For example, at full retirement age or older, your spouse may receive a survivor benefit equal to 100 percent of your basic Social Security benefit. However, if your spouse has not yet reached full retirement age at the time of your death, he or she will receive a reduced benefit, generally 71.5 to 99 percent of your basic benefit (75 percent if your spouse is caring for a child under age 16). Your dependent child may also receive 75 percent of your basic benefit.

A maximum family benefit rate caps the total amount of money your survivors can get each month. The total benefit your family can receive based on your earnings record is about 150 to 180 percent of your basic benefit amount. If the total family benefit exceeds this limit, each family member's benefit will be reduced proportionately.

You can find out more about future Social Security benefits by signing up for a *my* Social Security account at the Social Security website, ssa.gov, so that you can view your online Social Security Statement. Your statement contains a detailed record of your earnings, as well as estimates of retirement, survivor, and disability benefits. If you're not registered for an online account and are not yet receiving benefits, you'll receive a statement in the mail every year, starting at age 60.

Don't forget the lump-sum benefit

If you've accumulated enough work credits, your spouse may receive a lump-sum benefit of $255. Your spouse must have been living with you at the time of your death or have been receiving benefits based on your earnings record if living apart from you. If you're not married at the time of your death, the death benefit may be split among any children you have who are eligible for benefits based on your earnings record.

If a loved one has died, contact the Social Security Administration immediately

If a loved one has died and you are eligible for survivor benefits, you should contact the SSA right away. If you're already receiving benefits based on your spouse's earnings record, the SSA will change your payments to survivor benefits (if your children are receiving benefits, their benefits will be changed, too). But if you're not yet receiving any Social Security benefits or if you're receiving benefits based on your own earnings record, you'll have to fill out an application for survivor benefits.

It's helpful to have the following documents when you apply, but if you don't have all the information required, the SSA can help you get it:

- Proof of death (a death certificate or funeral home notice)
- Your Social Security number, as well as the deceased worker's number
- Your birth certificate
- Your marriage certificate, if you're a widow or widower
- Your divorce papers, if applicable
- Dependent children's Social Security numbers, if available
- Deceased worker's W-2 forms, or federal self-employment tax return, for the most recent year
- The name of your bank, as well as your account numbers, for direct deposit

Visit the SSA website or your local SSA office or call (800) 772-1213 for more information on survivor benefits and how to apply for them.

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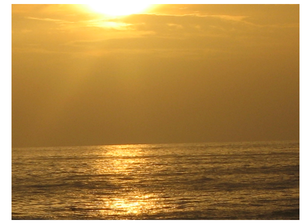

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