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James V Sadrianna PA - February 2021 Newsletter

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Federal Tax Filing Season Starts Soon

IRS starts accepting returns:

- ***Friday, February 12, 2021***

Filing deadline for most individuals:

- ***Thursday, April 15, 2021***

The IRS has announced that the federal income tax filing season for tax year 2020 returns begins on Friday, February 12, 2021. Although tax seasons frequently begin in late January, the additional time will allow the IRS to update its programming and test its system to take into account any changes made by the Consolidated Appropriations Act, 2021 (CAA 2021), signed into law on December 27, 2020. Last-minute changes to tax law have already been included in IRS tax forms and instructions.

Tips for making filing easier

To speed refunds and help with tax filing, the IRS suggests the following:

- Make sure you have received Form W-2 and other earnings information, such as Form 1099, from employers and payers. The dates for furnishing such information to recipients vary by form, but they are generally not required before February 1, 2021. You may need to allow additional time for mail delivery.
- The federal individual income tax returns, Form 1040 and Form 1040-SR (available for seniors born before January 2, 1956), and instructions are available on *irs.gov* .
- File electronically and use direct deposit.
- Check *irs.gov* for the latest tax information.

Key filing dates

Here are several important dates to keep in mind.

- **January 12.** IRS Free File opened. Free File allows you to file your federal income tax return for free [if your adjusted gross income (AGI) is $72,000 or less] using tax preparation and filing software. You can use Free File Fillable Forms even if your AGI exceeds $72,000 (but these apparently are not available until February 12). You can already file with an IRS Free File partner, but tax returns will not be transmitted to the IRS before February 12. Tax software companies may also be accepting tax filings in advance.
- **February 12.** IRS begins accepting and processing individual tax returns.
- **February 22.** Projected date for the *irs.gov* Where's My Refund tool being updated for those claiming the earned income tax credit (EITC) and the additional child tax credit (ACTC).
- **First week of March.** Tax refunds begin reaching those claiming the EITC and ACTC for those who file electronically with direct deposit and no issues on their tax returns.
- **April 15.** Deadline for filing 2020 tax returns (or requesting an extension).
- **October 15.** Deadline to file for those who requested an extension on their 2020 tax returns.

Tax refunds

The IRS encourages taxpayers seeking a tax refund to file their tax return as soon as possible. The IRS anticipates most tax refunds being issued within 21 days of the IRS receiving a tax return if the return is filed electronically with direct deposit and there are no issues with the tax return. To avoid delays in processing, the IRS encourages people to avoid paper tax returns whenever possible.

The $900 billion emergency relief package represents a bipartisan effort to assist individuals and businesses during the ongoing coronavirus pandemic and accompanying economic crisis.

Consolidated Appropriations Act Provides Relief to Individuals and Businesses

On Sunday, December 27, 2020, the Consolidated Appropriations Act, 2021 (CAA 2021) was signed into law. A $900 billion emergency relief package is included as part of this omnibus spending bill. It is intended to assist individuals and businesses during the ongoing coronavirus pandemic and accompanying economic crisis. Major relief provisions are summarized here, as well as some additional tax provisions.

Unemployment provisions

The legislation provides an extension to expanded unemployment benefit assistance (although at a lower amount):

- An additional $300 weekly benefit to those collecting unemployment benefits, through March 14, 2021
- An additional 11-week extension of federally funded unemployment benefits for individuals who exhaust their state unemployment benefits
- Targeted federal reimbursement of state unemployment compensation designed to eliminate state one-week delays in providing benefits (allowing individuals to receive a maximum 50 weeks of benefits)
- Unemployment benefits through March 14, 2021, for many who would not otherwise qualify, including independent contractors and part-time workers

Recovery rebates

Most individuals will receive another direct payment from the federal government. Technically a 2020 refundable income tax credit, the rebate amount will be calculated based on 2019 tax returns filed and sent automatically via check or direct deposit to qualifying individuals. To qualify for a payment, individuals generally must have a Social Security number and must not qualify as the dependent of another individual.

The amount of the recovery rebate is $600 ($1,200 if married filing a joint return) plus $600 for each qualifying child under age 17. Recovery rebates are phased out for those with an adjusted gross income (AGI) exceeding $75,000 ($150,000 if married filing a joint return, $112,500 for those filing as head of household). For those with AGIs exceeding the threshold amount, the allowable rebate is reduced by $5 for every $100 in income over the threshold.

Rebate Amounts and Phaseout Ranges

Filing Status	Payment Amount	Phaseout Threshold	Phaseout Completed
Married Filing Jointly	$1,200	$150,000	$174,000
+ 1 Child	$1,800	$150,000	$186,000
+ 2 Children	$2,400	$150,000	$198,000
Head of Household	$600	$112,500	$124,500
+ 1 Child	$1,200	$112,500	$136,500
+ 2 Children	$1,800	$112,500	$148,500
All Others	$600	$75,000	$87,000

Business relief

- The employee retention tax credit has been extended through June 30, 2021. It is available to employers that were significantly impacted by the crisis and is applied to offset Social Security payroll taxes. As extended, the credit is increased to 70% of qualified wages, up to a certain maximum per quarter.
- Paycheck protection program (PPP) loans have been extended and the allowable uses (eligible expenses) of the loan expanded. A PPP loan amount can be forgiven for paying certain expenses, and such amount is not included in income. It is clarified that no deduction will be denied, no tax attribute reduced, and no basis increase denied by reason of the exclusion from gross income.
- Repayment of employee payroll taxes deferred in 2020 was originally scheduled for the period January 1, 2021, through April 30, 2021. The period for repayment has been expanded to January 1, 2021,

through December 31, 2021.

- The employer tax credit for providing emergency sick and family leave has been extended through March 31, 2021.
- A full deduction is now allowed for business meals provided by a restaurant for expenses paid or incurred in 2021 and 2022.

Rent relief

- The legislation allocates funds to state and local governments to provide emergency rental assistance through December 31, 2021.
- The legislation extends an eviction moratorium originally issued by the Centers for Disease Control and Prevention, but only through January 31, 2021.

Charitable giving

Enhancements to the normal charitable gifts deduction rules in 2020 have been extended through 2021.

- For those who itemize deductions, the limit on the charitable gifts deduction has been increased to 100% of AGI for direct cash gifts to public charities.
- For nonitemizers, a $300 (increased to $600 in 2021 for joint returns) charitable deduction for direct cash gifts to public charities is available (in addition to the standard deduction).

Other tax provisions

The floor for deducting medical expenses has been permanently lowered to 7.5% of AGI (it was scheduled to increase to 10% in 2021).

Starting in 2021, the deduction for qualified tuition and related expenses has been repealed. To make up for it, the modified adjusted gross income (MAGI) phaseout range for the Lifetime Learning Credit has been increased to be the same as the phaseout range for the American Opportunity Tax Credit.

A number of provisions that are periodically extended (often a year at a time) have been extended through 2025, including:

- The exclusion from gross income of discharge of qualified principal residence indebtedness
- The employer credit for paid family and medical leave
- The exclusion from income for certain employer payments of student loans

A number of other provisions have been extended (generally through 2021), including:

- The treatment of mortgage insurance premiums as qualified residence interest for purposes of the interest deduction
- The energy efficient home credit

Financial Aid Changes on the Horizon

The U.S. Department of Education has designated February as Financial Aid Awareness Month, and this year there's a lot to talk about. On December 21, 2020, Congress passed the Consolidated Appropriations Act, 2021, another relief package in response to the pandemic. Included in the bill were several provisions related to education, including many changes to financial aid. Here are some key highlights.

New changes to the FAFSA, including a significant reduction in the number of questions, will take effect for the 2023-2024 school year.

Money for education

In total, the bill provides $82 billion for education, including $22.7 billion for colleges and universities. Colleges must use some of those funds to provide emergency financial help to students who have been affected by the pandemic. This is likely left to the discretion of each school's financial aid office.

Despite the cash infusion to colleges, the amount is far short of the $120 billion that college advocates said they needed to deal with the dual headwinds of rising expenses and falling revenue. Ted Mitchell, president of the American Council on Education, stated: "[T]he situation currently facing America's colleges and universities is a crisis of almost unimaginable magnitude....The money provided in this bill will provide some limited relief, which is welcome news to struggling students and institutions. But it is not going to be nearly enough in the long run or even the medium term."

Simplified FAFSA for 2023-2024 year

The relief package included a smaller bill called the FAFSA Simplification Act, which accomplishes the long-held bipartisan objective of simplifying the Free Application for Federal Student Aid, or FAFSA. These changes will take effect starting on July 1, 2023, for the 2023-2024 school year. Here are some of the more significant changes.

- **Fewer questions.** The bill significantly reduces the overall number of questions on the FAFSA, including eliminating questions about drug convictions and Selective Service status.
- **Changes to cost of attendance.** The bill makes several changes to the definition of "cost of attendance" in an attempt to standardize the term among colleges and make it more favorable to families. For example, the allowance for room and board will be split into separate allowances for housing and meals, with the allowance for meals based on three meals a day and the housing allowance for students living in college housing based on the average or median housing charge (not the lowest charge), whichever is greater. What's more, colleges can no longer set the housing allowance to zero for dependent students who live at home with their parents, and colleges must include an allowance for loan fees for federal student and parent loans. Colleges will be required to disclose all the elements of the cost of attendance on their website.
- **Expanded income protection allowance.** The "income protection allowance," which shelters a portion of income from the FAFSA, will generally be more favorable for parents and students. Also, the income protection allowance will no longer be reduced based on the number of children in college.
- **Changes to untaxed income and benefits.** For purposes of the FAFSA formula, the definition of "untaxed income and benefits" has been streamlined and several types of untaxed income and benefits have been omitted, including child support (this will be considered an "asset" instead), workers' compensation, veterans' benefits, and any money paid on the student's behalf. In addition, income from

a federal work-study job, the American Opportunity tax credit, and the Lifetime Learning credit will not be counted as "income."

- **Multiple children in college at the same time loses preferential treatment.** Having multiple children in college at the same time can be a benefit for parents, because the EFC is typically cut in half (or divided by three or four, depending on how many children in the family are in college). But that's going to change. Starting in the 2023-2024 school year, the number of children in a family attending college at the same time on at least a half-time basis will no longer be a relevant data point. The FAFSA will still collect this information, but it will no longer divide a parent's assessment by the number of children in college. This change has the potential to significantly reduce the amount of financial aid offered to middle-class and high-income families who have multiple children in college at the same time.
- **Expanded Simplified Needs Test.** The Simplified Needs Test, an alternate formula within the FAFSA that exempts certain families from having to report their assets (i.e., only income is counted to determine aid eligibility), has been renamed Applicants Exempt from Asset Reporting. In addition, there will be multiple ways to qualify, including a higher income threshold that will be raised from $50,000 to $60,000.
- **Expanded Pell Grant.** The bill widens the net of students eligible for a Pell Grant, and allows them to use basic information, like adjusted gross income and family size, to see if they qualify.
- **Goodbye EFC terminology.** The Student Aid Report generated by the FAFSA will no longer refer to the end calculation as the Expected Family Contribution, or EFC. Instead, this figure will be called the Student Aid Index, or SAI. The purpose of the name change is to more accurately reflect what this number represents — a yardstick for aid eligibility rather than a guarantee of what families will pay, because families often pay more than their EFC amount.

The 2023-2024 FAFSA that will include these changes will be available to file beginning October 1, 2022. This will give the U.S. Department of Education time to implement the changes. The 2022-2023 FAFSA, which will be available to file on October 1, 2021, will follow the current definitions and rules.

Employer help with student loan repayment starting in 2021

The bill extends a provision allowing employers to pay up to $5,250 of employees' student loans per year on a tax-free basis for another five years. This provision, included in the Consolidated Aid, Relief, and Economic Security (CARES) Act, would have expired at the end of 2020.

Expanded Lifetime Learning credit starting in 2021

Beyond financial aid, the relief bill increases the income limits necessary to qualify for the Lifetime Learning credit, an education tax credit worth up to $2,000 per year for courses taken throughout one's lifetime to acquire or improve job skills.

Starting in 2021, a full credit will be available to single filers with a modified adjusted gross income (MAGI) below $80,000 and joint filers with a MAGI below $160,000 (the credit phases out for single filers with incomes between $80,000 and $90,000 and joint filers with incomes between $160,000 and $180,000). These are the same income limits used for the American Opportunity credit. To accommodate an expanded Lifetime Learning credit, Congress repealed the deduction for qualified college tuition and fees for 2021 and beyond.

For more information

The Consolidated Appropriations Act, 2021, contains other provisions that affect the FAFSA, making Financial Aid Awareness Month even more important this year. For more information on the FAFSA in general, along with news and updates, visit the official FAFSA website.

New research suggests that retirees could make larger initial withdrawals, particularly in a low-inflation environment.

Revisiting the 4% Rule

Saving for retirement is not easy, but using your retirement savings wisely can be just as challenging. How much of your savings can you withdraw each year? Withdraw too much and you run the risk of running out of money. Withdraw too little and you may miss out on a more comfortable retirement lifestyle.

For more than 25 years, the most common guideline has been the "4% rule," which suggests that a withdrawal equal to 4% of the initial portfolio value, with annual increases for inflation, is sustainable over a 30-year retirement. This guideline can be helpful in projecting a savings goal and providing a realistic picture of the annual income your savings might provide. For example, a $1 million portfolio could provide $40,000 of income in the first year with inflation-adjusted withdrawals in succeeding years.

The 4% rule has stimulated a great deal of discussion over the years, with some experts saying 4% is too low and others saying it's too high. The most recent analysis comes from the man who invented it, financial professional William Bengen, who believes the rule has been misunderstood and offers new insights based on new research.

Original research

Bengen first published his findings in 1994, based on analyzing data for retirements beginning in 51 different years, from 1926 to 1976. He considered a hypothetical, conservative portfolio comprising 50% large-cap stocks and 50% intermediate-term Treasury bonds held in a tax-advantaged account and rebalanced annually. A 4% inflation-adjusted withdrawal was the highest sustainable rate in the worst-case scenario — retirement in October 1968, the beginning of a bear market and a long period of high inflation. All other retirement years had higher sustainable rates, some as high as 10% or more.[1]

Of course, no one can predict the future, which is why Bengen suggested the worst-case scenario as a sustainable rate. He later adjusted it slightly upward to 4.5%, based on a more diverse portfolio comprising 30% large-cap stocks, 20% small-cap stocks, and 50% intermediate-term Treasuries.[2]

New research

In October 2020, Bengen published new research that attempts to project a sustainable withdrawal rate based on two key factors at the time of retirement: stock market valuation and inflation (annual change in the Consumer Price Index). In theory, when the market is expensive, it has less potential to grow, and sustaining increased withdrawals over time may be more difficult. On the other hand, lower inflation means lower inflation-adjusted withdrawals, allowing a higher initial rate. For example, a $40,000 first-year withdrawal becomes an $84,000 withdrawal after 20 years with a 4% annual inflation increase but just $58,000 with a 2% increase.

To measure market valuation, Bengen used the Shiller CAPE, the cyclically adjusted price-earnings ratio for the S&P 500 index developed by Nobel laureate Robert Shiller. The price-earnings (P/E) ratio of a stock is the share price divided by its earnings per share for the previous 12 months. For example, if a stock is priced at $100 and the earnings per share is $4, the P/E ratio would be 25. The Shiller CAPE divides the total share price of stocks in the S&P 500 index by average inflation-adjusted earnings over 10 years.

5% rule?

Again using historical data — for retirement dates from 1926 to 1990 — Bengen found a clear correlation between market valuation and inflation at the time of retirement and the maximum sustainable withdrawal rate. Historically, rates ranged from as low as 4.5% to as high as 13%, but the scenarios that supported high rates were unusual, with very low market valuations and/or deflation rather than inflation.[3]

For most of the last 25 years, the United States has experienced high market valuations, and inflation has been low since the Great Recession.[4-5] In a high-valuation, low-inflation scenario at the time of retirement, Bengen found that a 5% initial withdrawal rate was sustainable over 30 years.[6] While not a big difference from the 4% rule, this suggests retirees could make larger initial withdrawals, particularly in a low-inflation environment.

One caveat is that current market valuation is extremely high: The S&P 500 index had a CAPE of 34.19 at the end of 2020, a level only reached (and exceeded) during the late-1990s dot-com boom and higher than any of the scenarios in Bengen's research.[7] His range for a 5% withdrawal rate is a CAPE of 23 or higher, with inflation between 0% and 2.5%.[8] (Inflation was 1.2% in November 2020.)[9] Bengen's research suggests that if market valuation drops near the historical mean of 16.77, a withdrawal rate of 6% might be

sustainable as long as inflation is 5% or lower. On the other hand, if valuation remains high and inflation surpasses 2.5%, the maximum sustainable rate might be 4.5%.[10]

It's important to keep in mind that these projections are based on historical scenarios and a hypothetical portfolio, and there is no guarantee that your portfolio will perform in a similar manner. Also remember that these calculations are based on annual inflation-adjusted withdrawals, and you might choose not to increase withdrawals in some years or use other criteria to make adjustments, such as market performance.

Although there is no assurance that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies, including your withdrawal strategy.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. Rebalancing involves selling some investments in order to buy others; selling investments in a taxable account could result in a tax liability.

The S&P 500 index is an unmanaged group of securities considered representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Actual results will vary.

1-2) Forbes Advisor, October 12, 2020

3-4, 6, 8, 10) *Financial Advisor,* October 2020

5, 9) U.S. Bureau of Labor Statistics, 2020

7) multpl.com, December 31, 2020

Receiving Unemployment Benefits

Do you worry about changes in the economy? Have you recently been fired or a victim of downsizing? Whatever your situation, you may be wondering if you're eligible for unemployment benefits. For a basic understanding of how unemployment benefits work, read on!

Am I eligible?

Although specific eligibility requirements vary from state to state, most states have the same basic standards for collecting unemployment benefits. They include:

- You must be unemployed or working less than full time
- You must meet certain income requirements
- You must be ready, willing, and able to work
- You must have involuntarily left your job

In general, you won't be eligible for benefits if:

- You quit your job simply because you didn't like it
- You're fired for committing a crime (e.g., stealing)
- You've never worked before

For more information, contact your state's local employment office. You can also look in the state government section of your phone book under Unemployment Insurance, Unemployment Compensation, Employment Insurance, or Employment Service. Or, you can try surfing the Internet using these same key terms.

Where does the money come from?

In most states, unemployment compensation is financed by employer contributions through a payroll tax. In a few states, employees are also required to contribute a minimal amount to the fund.

How do I apply?

Most states will allow you to apply for benefits:

- In person

- By telephone
- By mail

When filling out the application, you'll be asked a lot of questions, so have the following information handy:

- Your Social Security number
- Your last employer's name, address, and phone number
- Your last day of work and the reason that you're no longer working
- Your salary history
- Your proof-of-citizenship status

How are benefits calculated?

Regardless of which state you live in, you'll receive a weekly unemployment benefit based on how long you were employed and your prior wages. The state will calculate your average weekly wage, and you will receive a percentage of that wage based on your state's formula. You can figure out your average weekly wage by adding up 12 months' worth of pay stubs and dividing that number by 52. If you were salaried, just divide your annual salary by 52.

How long can I receive benefits?

In most states, you can receive benefits for up to 26 weeks. However, federal laws and some state laws provide for additional benefits to be paid to workers who exhaust their regular benefits during periods of high unemployment. These additional benefits may generally be paid up to 14 weeks (20 weeks in some states) and are funded partly by state governments and partly by the federal government.

Are unemployment benefits taxable?

The answer to this question comes as a big surprise to many people. Yes, the unemployment compensation you receive is generally taxable. In some states, you can ask that taxes be withheld from your unemployment check. This could save you from a big tax bill at the end of the year. For more information, consult your tax advisor.

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?

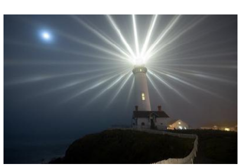
Your retirement benefit is based on your average earnings over your working career. Higher lifetime earnings result in higher benefits, so if you have some years of no earnings or low earnings, your benefit amount may be lower than if you had worked steadily. Your age at the time you start receiving 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

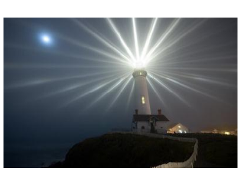
Even if your spouse has never worked outside your home or in a job covered by Social Security, he or she may be eligible for spousal benefits based on your Social Security earnings record. Other members of your family may also be eligible. Retirement benefits are generally paid to family members who 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.

Tax Tips: Health Insurance

Your health insurance coverage probably came in handy several times over the past year. It all seemed so simple at the time--you paid a deductible, and your insurance usually kicked in the rest. But what do you do at tax time? Just what are you taxed on, and what can you deduct on your federal income tax return?

Your income taxes may be affected by two aspects of your health insurance plan--the premiums and the benefits. Here's what you need to know.

You don't include employer-paid premiums in your income

For tax purposes, you can generally exclude from your income any health insurance premiums (including Medicare) paid by your employer. The premiums can be for insurance covering you, your spouse, and any dependents. It doesn't matter whether the premiums paid for an employer-sponsored group policy or an individual policy. You can even exclude premiums that your employer pays when you are laid off from your job.

What if your employer reimburses you for your premiums?

If you pay the premiums on your health insurance policy and receive a reimbursement from your employer for those premiums, the amount of the reimbursement is not taxable income. However, if your employer simply pays you a lump sum that may be used to pay health insurance premiums but is not required to be used for this purpose, that amount is taxable.

In most cases, you won't be able to deduct the premiums you pay

The deductibility of health insurance premiums follows the rules for deducting medical expenses. Usually, the premiums you pay on an individual health insurance policy won't be deductible. However, if you itemize deductions on Schedule A, and your unreimbursed medical expenses exceed 10 percent of your adjusted gross income (AGI) in any tax year, you may be able to take a deduction. You can deduct the amount by which your unreimbursed medical expenses exceed this 7.5 percent threshold.

Unreimbursed medical expenses include premiums paid for major medical, hospital, surgical, and physician's expense insurance, and amounts paid out of your pocket for treatment not covered by your health insurance.

If you're self-employed, special deduction rules may apply

In addition to the general rule of deducting premiums as medical expenses, self-employed individuals can deduct a percentage of their health insurance premiums as business expenses. These deductions aren't limited to amounts over 10 percent of AGI, as are medical expense deductions. They are limited, though, to amounts less than an individual's earned income. The definition of self-employed individuals includes sole proprietors, partners, and 2 percent S corporation shareholders.

If you qualify, you can deduct 100 percent of the cost of health insurance that you provide for yourself, your spouse, and your dependents. This deduction is taken on the front of your federal Form 1040; the portion of your health insurance premiums that is not deductible there can be added to your total medical expenses itemized in Schedule A.

Your health insurance benefits typically aren't taxable

Whether we're talking about an employer-sponsored group plan or a health insurance policy you bought on your own, you generally aren't taxed on the health insurance benefits you receive.

What about reimbursements for medical care? You can generally exclude from income reimbursements for hospital, surgical, or medical expenses that you receive from your employer's health insurance plan. These reimbursements can be for your own expenses or for those of your spouse or dependents. The exclusion applies regardless of whether your employer provides group or individual insurance, or serves as a self-insurer. The reimbursements can be for actual medical care or for insurance premiums on your own health insurance.

Note that there is no dollar limit on the amount of tax-free medical reimbursements you can receive in a year. However, if your total reimbursements for the year exceed your actual expenses, and your employer pays for all or part of your health insurance premiums, you may have to include some of the excess in your income.

Other Options When You Can't Meet Your Financial Obligations

What are your other options when you can't meet your financial obligations?

You have studied your financial picture carefully, and you realize that there is simply no way to make ends meet. You just can't pay all your bills. Maybe you're not ready to consider filing for bankruptcy and you don't want to use a credit counselor. What can you do? Fortunately, there are many steps you can take on your own to deal with your debt problem.

Reduce monthly payments

When you find yourself in financial trouble, your immediate concern should be to slash your cash outflow as much as possible. If you've been prepaying your mortgage, car loan, or other debts, put that plan on hold, at least temporarily. If you've been making more than the minimum payment on your credit cards, scale back to minimum payments until you get your finances straightened out. This small step may be enough to solve your problems, especially if your financial troubles are temporary in nature. Make sure you can comfortably make the required monthly payments on all your bills before you go back to making larger payments. If you don't have enough money to make even minimum payments, you'll need to take further action.

Consolidate debts

When you consolidate your debt, you take out one large loan to pay off all your smaller existing loans. This leaves you with one loan payment rather than many.

One of the main advantages of consolidation is that your monthly payment on the consolidation loan is substantially lower than the combined payments of the smaller loans. In addition, you may be able to lower your interest rate.

There are also disadvantages to loan consolidation. For example, the repayment term of a consolidation loan may be longer than the terms on your smaller existing loans. This means it will take longer to get out of debt. Additionally, you could lose any collateral you provide for a consolidation loan if you default on the loan.

Refinance

Almost any type of loan can be refinanced: mortgages, car loans, personal loans, even credit cards. When you refinance, you take out a new loan and using the proceeds to pay off the old loan. For example, when you refinance a car loan, you take out a used car loan from the new lender, and the new lender sends the loan check to your old lender to pay off your existing loan.

The main objective of refinancing is to lower your interest rate, thereby reducing your total repayment amount. However, when you are having difficulty meeting your financial obligations, your goal is more likely to reduce monthly payments. Refinancing to a lower interest loan can lower your payments slightly. But to get the desired results, you may have to extend the term of your loan. For example, if you have 24 payments left on your car loan, you might have to refinance to a 36-month or 48-month loan in order to substantially reduce your monthly payment amount. If you do this, your monthly payments will be less, but it also means it will take longer to pay off the loan. You should consider this a temporary measure. Once you have regained your financial stability, you should either refinance again (to a loan with a shorter repayment term) or prepay the loan by making extra payments or paying more than the minimum each month.

Prioritize repayments

Divide your debts into two categories

If you are unable to meet all your financial obligations, you will need to determine which of your debts are essential and which are nonessential. The general guideline is that an essential debt is one that could create serious problems if it weren't paid. Failure to pay nonessential debts would have far less serious consequences. Whether or not a particular debt is essential will be dictated by your individual situation. Common essential debts include rent or mortgage payments, utilities, child support, school tuition, car payments, unpaid taxes, medical and auto insurance, and secured loans. Nonessential debts may include credit cards, loans from

friends and family members, and other unsecured debts.

Pay essential debts first

Your essential debts should obviously be paid first. If you can't pay all your essential debts, you may need to prioritize this list and move the least essential to the nonessential list. For example, if you can get around without a car, your car payment might be moved to the nonessential list.

Pay nonessential debts with any remaining money

You shouldn't pay any nonessential debts until your essential debts are all paid. If you have money left for nonessential debts, you should prioritize this list and pay the most important of the nonessential debts first.

Caution: *Remember that interest and late fees on unpaid debts will continue to accumulate, making your unpaid debts even larger.*

Negotiate with creditors

Why negotiate?

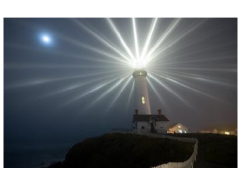
If you are in financial trouble but you honestly want to do the best you can to pay off your debts, you may be able to negotiate with your creditors. In order to avoid the collections process, many creditors will reduce payments, extend your repayment period, waive late fees, or sometimes even accept less than full repayment. If you can negotiate your repayment terms, you may be able to get through your financial crisis without ruining your credit record.

Notify creditors of trouble as soon as possible

One of the keys to successful negotiations is to let your creditors know about potential problems as soon as possible. Explain the situation to them (e.g., job layoff, medical emergency). Let the creditor know what you're doing to remedy the problem (e.g., looking for work, cutting costs at home). Specify whether you need a temporary fix or long-term relief, and continue to send at least minimal payments as a sign of your good faith effort.

Don't expect perfect results

Unfortunately, many creditors refuse to negotiate with debtors. You may find that some of your creditors are not willing to accept partial payments or to extend your loan term. But it is still in your best interest to make an effort to negotiate.



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