Health & Retirement Services of Illinois
Newsletter December 2021

OUR NEWS LETTER

2021 Taxes: 8 Things to Know Now

In Our Newsletter

"As we edge closer to the end of the year, it's a great time to reassess your tax planning for 2021. An important part of this process is to know the likely tax bracket you'll be in, the limits that could impact you, and the potential deductions available," says Hayden Adams, CPA, CFP®, and director of tax planning at the Schwab Center for Financial Research. Here are eight things to keep in mind as you prepare to file your 2021 taxes.

1. Income tax brackets shifted a bit

There are still seven tax rates, but the income ranges (tax brackets) for each rate have shifted slightly to account for inflation. For 2021, the following rates and income ranges apply:

Tax rate	Taxable income brackets: Single filers	Taxable income brackets: Married couples filing jointly (and qualifying widows or widowers)
10%	$0 to $9,950	$0 to $19,900
12%	22$9,951 to $40,525	$19,901 to $81,050
22%	$40,526 to $86,375	$81,051 to $172,750

24%	$86,376 to $164,925	$172,751 to $329,850
32%	$164,926 to $209,425	$329,851 to $418,850
35%	$209,426 to $523,600	$418,851 to $628,300
37%	$523,601 or more	$628,301 or more

Source: Internal Revenue Service

2. The standard deduction increased slightly

One of the biggest changes to come out of the Tax Cuts and Jobs Act (TCJA) of 2017 was the doubling of the standard deduction. After an inflation adjustment, the 2021 standard deduction increases slightly, making the standard deduction $12,550 for single filers and married couples filing separately and $18,800 for single heads of household, who are generally unmarried with one or more dependents. For married couples filing jointly, the standard deduction rises to $25,100.

3. Itemized deductions remain the same

The TCJA eliminated many itemized deductions—including deductions for tax preparation fees, investment advisor fees, and unreimbursed job expenses—in favor of the higher standard deduction. In addition, some remaining itemizations were limited.

The following rules haven't changed much for 2021, but are still worth pointing out.

- **State and local taxes:** The deduction for state and local income taxes, property taxes, and real estate taxes is capped at $10,000.
- **Mortgage interest deduction:** The mortgage interest deduction is limited to $750,000 of indebtedness. But people who had $1,000,000 of home mortgage debt before December 16, 2017, will still be able to deduct the interest on that loan.
- **Medical expenses:** Only medical expenses that exceed 7.5% of adjusted gross income (AGI) can be deducted in 2021.
- **Charitable donations:** The Consolidated Appropriations Act extends the cash donation limit of 100% of AGI, which was enacted under the CARES Act, to 2021.

- **Miscellaneous deductions:** No miscellaneous itemized deductions are allowed.

4. IRA contribution limits remain the same, but 401(k) limits increased a bit

The traditional IRA and Roth contribution limits in 2021 remain the same as in 2020. Individuals can contribute up to $6,000 to an IRA, and those age 50 and older also qualify to make an additional $1,000 catch-up contribution. If you're able to max your IRA, consider doing so—you may qualify to deduct some or all of your contribution.

The 2021 contribution limits for 401(k) accounts also stays at $19,500. If you're age 50 or older you qualify to make an additional $6,500 catch-up contribution as well.

5. You can save a bit more in your health savings account (HSA)

For 2021, the max you can contribute into an HSA is $3,600 for an individual (up $50 from 2020) and $7,200 for a family (up $100). People age 55 and older can contribute an extra $1,000 catch-up contribution.

To be eligible for an HSA, you must be enrolled in a high-deductible health plan (which usually has lower premiums as well). Learn more about the benefits of an HSA.

6. You may qualify for the child tax credit

The TCJA increased the child tax credit up to $2,000 per dependent child age 16 and younger and made it available to people with household incomes below $200,000 for single filers or $400,000 for joint filers in 2020.

The American Rescue Plan Act (ARPA) goes a step further by temporarily modifying requirements and credit amounts for 2021. First, the ARPA raises the age limit for dependents from 16 to 17. In addition, the child tax credit increases from $2,000 to $3,000 for children age 6 through 17 and up to $3,600 for children under 6. However, there is an income limit for this increased credit: for individual taxpayers, the phaseout starts at

$75,000 ($150,000 for married filing jointly). If your income exceeds these limits, the previous $2,000 per child tax credit remains.

The IRS began sending monthly advance Child Tax Credit payments to eligible families in July and will continue until December. If your dependent doesn't qualify for the child tax credit, you may still qualify for up to $500 of tax credits under the "credit for other dependents" (see IRS Publication 972 for more details). Tax credits, which reduce the tax you owe dollar for dollar, are generally better than deductions, which reduce your taxable income.

7. The alternative minimum tax (AMT) exemption went up

The TCJA greatly reduced the number of taxpayers subject to the AMT, which now mostly affects households with incomes over $500,000, according to the Tax Policy Center. Still, the AMT has investment implications for some high earners.

For 2021, the AMT exemptions are $73,600 for single filers and $114,600 for married taxpayers filing jointly. The phase-out thresholds are $1,047,200 for married taxpayers filing a joint return and $523,600 for all other taxpayers.

8. The estate tax exemption is even higher

The estate and gift tax exemption, which is indexed to inflation, rises to $11.7 million for 2021. But the now-higher exemption is set to expire at the end of 2025, meaning it could be essentially cut in half at that time if Congress doesn't act.

The annual gift exclusion, which allows you to give money to your loved ones each year without incurring any tax liability or using up any of your lifetime estate and gift tax exemption, stays at $15,000 per recipient.

Don't get caught off guard

As you prepare to file your taxes for 2021, here are a few additional items to consider.

- If you're not retired, the 10% early withdrawal penalty that was waived for retirement account distributions in 2020 no longer applies for 2021.

- If you’re age 72 or older, make sure you’ve taken your required minimum distributions (RMD) from your retirement accounts or else you face a 50% penalty on any undistributed funds (unless it’s your first RMD, in which case, you can wait until April 1, 2022).

If you haven’t contributed to your retirement accounts already, now is the time. Review your earnings for the year and take advantage of any deductions that can lower your tax bill. Also, keep an eye on Washington for any last-minute tax changes that can affect your return before you file. Tax season will be here before you know it.

4 Common Trust Mistakes

At its core, the purpose of estate planning is to ensure your assets transfer to your heirs as efficiently and effectively as possible. And that's where trusts come in.

Not only do they bypass probate—the often-lengthy legal process of validating your will—but they also leave behind precise, legally binding instructions for how to distribute and potentially maintain your assets. This can be especially critical if you have a beneficiary with special needs or one who is otherwise ill-equipped to manage an inheritance, or you're bequeathing complex assets that will require ongoing attention after you're gone.

That said, "establishing your own trust can be a minefield," says Kimberly Frank, a Schwab senior wealth strategist. Here, Kimberly and her colleague George Pennock, director of trust services consulting for Charles Schwab Trust Company, share four common missteps people make when setting up a trust—and how to avoid them.

Mistake No. 1: Failing to fund the trust

According to Kimberly, the biggest and most costly mistake she has seen people make when creating a trust is failing to fund it. "You'd be surprised how many people go through the effort and cost of meeting with an attorney to formalize their wishes, only to leave the trust empty," she says.

Once you've done the paperwork, you must follow up by retitling the appropriate assets in the name of the trust as instructed by your attorney. In the case of insurance policies and retirement accounts, retitling may be as easy as updating your beneficiary designations online. For bank accounts and nonretirement investment accounts, you'll need to reach out to your financial institutions. And for real estate or business interests, you may need to work with your attorney to properly transfer such assets into the trust.

"Any assets that aren't appropriately retitled may have to go through probate, which can be a very lengthy process," Kimberly says. And don't assume a so-called pour-over will—in which you decree that the property in your estate should be distributed to the trust upon your passing—will help your estate avoid probate. "It will simply make sure the assets eventually end up in the trust once the probate process has concluded," she says.

Mistake No. 2: Choosing the wrong trustee

Whether or not you're able to act as the trustee of your own trust during your lifetime, you'll eventually need someone else to manage the assets and execute transactions, including distributions, after your passing.

"Older adults often want to lean on their kids to fill these roles, but you have to think about whether family dynamics could get in the way," Kimberly says. "I've also seen grantors name their adult children and new spouse as co-trustees, which can lead to all kinds of conflict if they have competing interests or don't see eye to eye." In such cases, it may make more sense to appoint a close family friend or corporate trustee instead. You might also consider combining the two approaches, naming an individual and a corporate trustee as co-trustees.

Where the trustee resides may matter, as well. Some states, including California and New York, tax the income from trusts administered in their states. Certain states may also offer better protection from creditors than others based on where the trustee resides. "Depending on the size and complexity of your estate, where a trustee is located could matter significantly," George says. An estate-planning attorney can help you think through such considerations as part of the trust-creation process.

Mistake No. 3: Underestimating financial needs

When designing a trust, many people concentrate more on portioning out what they have rather than assessing what their beneficiaries might actually need. "I've seen people put $1 million into a trust thinking that will maintain their spouse's lifestyle," George says. "But what if that person lives another 10, 15, or 20 years? Part of your process should be understanding the assumptions that underpin your planning—and accounting for different scenarios. You don't want your loved ones to run out of funds."

In addition, think about the costs your beneficiaries might incur when maintaining cherished but potentially burdensome nonfinancial assets, such as property. Most houses, for example, require repairs and general upkeep, and those costs can be considerable for higher-priced or second residences.

Mistake No. 4: Failing to update your trust

Unless you're working with an irrevocable trust—which, once established, generally can't be modified or revoked—you may want to periodically make changes to your trust should circumstances, such as death or divorce, require it.

Kimberly recommends meeting with an estate-planning attorney at least every three to five years to address any such changes. It also makes sense to stay on top of changes in tax law that could affect how trust assets are treated. For example, Congress is in the process of debating legislation that could include a variety of tax increases. One proposal under consideration would be drastically lowering the estate tax exemption from its current level of $11.7 million to as little as $5.8 million. (Read more about some of the proposals under consideration here.)

"The current higher level may remain in place through the end of 2021," Kimberly says. "While it's not certain what changes to tax law we could see, families should decide whether they'll execute any 'use it or lose it' gifting decisions as soon as possible, before any new laws are enacted that could impact their planning."

It's also possible that Congress could ban or make less effective other estate tax-planning strategies before the end of 2021, whether on the date any new laws are enacted or some proposed future date prior to the end of the year.

"Wealthy clients considering implementing any estate tax planning strategies should consider scheduling a meeting with their attorney as soon as possible to discuss their options," Kimberly adds. "Drafting and signing a trust can take time, as can transfers to trusts or individuals. Many attorney offices are also very busy given the current legislative climate, so don't delay."

Trust in the process

When designed correctly, a trust can help your heirs bypass the costs, delays, and headaches that often arise from probate proceedings. "The difference between a well- and poorly designed trust is usually the quality of the counsel you're getting," George says. "After all, your wishes are only as good as the trust designed to implement them."

CMS Announces 2022 Medicare Part B Premiums

Nov 12, 2021

Today, the Centers for Medicare & Medicaid Services (CMS) released the 2022 Medicare Parts A and B premiums, deductibles, and coinsurance amounts, and the 2022 Part D income-related monthly adjustment amounts. Most people with Medicare will see a 5.9 percent cost-of-living adjustment (COLA) in their 2022 Social Security benefits—the largest COLA in 30 years. This significant COLA increase will more than cover the increase in the Medicare Part B monthly premium.

Medicare Part B covers physician services, outpatient hospital services, certain home health services, durable medical equipment, and certain other medical and health services not covered by Medicare Part A. The increase in the standard monthly premium—from $148.50 in 2021 to $170.10 in 2022—is based in part on the statutory requirement to prepare for expenses, such as spending trends driven by COVID-19, and prior Congressional action in the Continuing Appropriations Act, 2021 that limited the 2021 Medicare Part B monthly premium increase during the COVID-19 pandemic. It also reflects the need to maintain a contingency reserve for unanticipated increases in health care spending, particularly certain drug costs. There is significant uncertainty regarding the potential for future coverage of clinician-administered Alzheimer's drugs (i.e., Aduhelm™), requiring additional contingency reserves. Potential Medicare drug coverage is currently the subject of a Medicare National Coverage Determination (NCD) analysis, which, if covered, could increase Medicare spending. The proposed NCD on Aduhelm (as well as any drugs in this category) is still to be determined.

Most people with Medicare will see a significant net increase in Social Security benefits. For example, a retired worker who currently receives $1,565 per month from Social Security can expect to receive a net increase of $70.40 more per month after the Medicare Part B premium is deducted.

"CMS is committed to ensuring high quality care and affordable coverage for those who rely on Medicare today, while protecting Medicare's sustainability for future generations," said CMS Administrator Chiquita Brooks-LaSure. "The increase in the Part B premium for 2022 is continued evidence that rising drug costs threaten the affordability and sustainability of the Medicare program. The Biden-Harris Administration is working to make drug prices more affordable and equitable for all Americans, and to advance drug pricing reform through competition, innovation, and transparency."

By law, the Medicare Part B monthly premium must equal 25 percent of the estimated total Part B costs for enrollees age 65 and over. CMS has a responsibility to establish an annual Part B premium that will adequately fund projected Medicare spending and maintain an adequate reserve in case actual costs are higher than estimated.

The annual deductible for Medicare Part B beneficiaries grows with the Part B financing and is increasing from $203 in 2021 to $233 in 2022.

The Administration is taking action to address the rapidly increasing drug costs that are posing a threat to the future of the Medicare program and that place a burden on people with Medicare. President Biden has proposed to lower prescription drug costs for Americans by letting Medicare negotiate drug prices as part of his Build Back Better agenda. In addition, Department of Health and Human Services Secretary Xavier Becerra released a comprehensive plan to lower drug prices as part of President

Biden's Executive Order on Promoting Competition in the American Economy. The plan includes legislative and administrative proposals to reduce drug costs in Medicare Parts B and D.

Medicare Open Enrollment – which ends December 7, 2021 – is an opportunity for the more than 63 million people who rely on Medicare to compare coverage options like Original Medicare (Parts A and Part B) and Medicare Advantage, and choose health and prescription drug plans for 2022. CMS urges Medicare beneficiaries to go to Medicare.gov or call 1-800-MEDICARE to review their coverage choices, decide on the options that best meet their health needs, and check their eligibility to receive financial assistance from the Medicare Savings Programs. Premiums and deductibles for Medicare Advantage and Medicare Prescription Drug plans (Medicare Part D) are already finalized and unaffected by this announcement.

For a fact sheet on the 2022 Medicare Parts A & B premiums and deductibles, and the Part D income-related monthly adjustment amounts, please visit: https://www.cms.gov/newsroom/fact-sheets/2022-medicare-parts-b-premiums-and-deductibles2022-medicare-part-d-income-related-monthly-adjustment

Americans Still Anxious About Post-Covid Retirement Risk, Survey Finds

More than a year into the recovery from the worldwide pandemic, market risk is still the top concern for American workers.

This is according to research that was conducted by American Century Investments among 1,500 full-time workers between the ages of 25-65, saving through their employer's retirement plan, and grouped by the categories of Baby Boomers, Generation X and Millennials.

"American workers are concerned about retiring in a market downturn and losing a significant portion of their life savings when they need it the most," noted Glenn Dial, senior retirement strategist with American Century Investments.

So what can financial advisors do to help their clients manage this risk?

"In-plan Guaranteed Retirement Income Contracts (GRICs) are becoming widespread inside 401(k) plans," Dial said. "Advisors can help their clients evaluate how much of their assets should be allocated to GRICs to attain their goals."

Longevity risk also continues to be a top concern for retirement plan participants, according to the survey. When it comes to taking withdrawals, 76 percent of survey respondents would be more likely to leave their money in their 401(k) plan if given an in-plan withdrawal solution.

And although some two out of three workers said that they know how much to withdraw for living expenses, only six out of 10 know how long to make their money last in retirement. Also, seven out of 10 said they need a "little bit of guidance" on how to withdraw money from their retirement accounts.

According to the survey, the good news is that three out of every four workers express at least some interest in holistic financial advice, which has some important implications for financial professionals.

As Dial pointed out, "it's challenging to make decisions in a silo because most aspects of one's financial life are interconnected. Workers need to balance their wealth, health, and debt management into a cohesive plan that complements each area."

EXPECTATIONS, WORRIES AND REGRETS

Some three in 10 workers expect a better standard of living in retirement; yet, four in 10 worry about running out of money, according to the survey. Many also admitted to saving less, particularly during their first five years of working, with six in 10 stating they saved less than they should have.

Ninety percent of participants at least somewhat agree that retirement plans are highly valued benefits; participants most likely to strongly agree with this statement are men, those with household incomes of $100,000 or more and those with assets of at least $500,000. Although four in 10 want a "kick in the pants" or a "strong nudge" to save more, Boomers are more likely than Millennials and Gen Xers to want to be left alone.

Employer matches are important to workers, and automatic plan features are intriguing to them. According to the survey, two out of three believe companies should have automatic enrollment with a six percent default rate, and just over 60 percent believe employers should automatically enroll and automatically increase it each year.

Also, four in 10 said that enrollment, contributions and default investments should be completely automatic for everyone.

AMERICAN WORKERS ARE MORE OPTIMISTIC

Following a year of the pandemic, participants are now more optimistic about saving, risk and expectations for the future. According the survey, they gave themselves higher grades on saving for retirement this year (an average of B-) versus 2020 (C+) and 2019 (C-).

Risk concerns also diminished somewhat from 2020. Worries about outliving retirement savings fell five percent (58 percent in 2021 versus 63 percent in the previous year); inflation and interest rate risk concerns decreased four percent; market risk worries went down 10 percent, as did concerns about growth.

Dial offered some reasons for this optimism. “Many consumers spent less during the pandemic and therefore saved more,” he said. “We are at a place where consumers have pent-up demand and they have extra dollars in their savings account; this can lead to optimism.”

The survey was conducted between March 8 and March 19, 2021. It included 1,500 full-time workers between the ages of 25 and 65 saving through their employer's retirement plan. Data collection and analysis were completed by Mathew Greenwald and Associates.

Investors are more worried about inflation than the Fed seems to be

Amid the market's debate over whether inflation will prove transitory or permanent, closely tracked indicators, such as bond yields, are sending us mixed signals about the future.

That in part is because the real economy is also fighting through competing impulses of its own. The supply chain crisis, and the upward pressure it's putting on soaring inflation remain the two biggest themes of 2021.

COVID-19 of course, remains a force multiplier behind everything, with the pandemic doing little to curb insatiable demand. October's jobs data, which blew the doors off the figurative barn and helped propel stocks to new record highs, did little to resolve the debate. And yields — which themselves should be true north of inflation and Federal Reserve policy expectations — are also sending mixed signals.

Still, evidence is growing that investors are getting really restive about the central bank's ability to contain inflation. As Yahoo Finance's Brian Cheung wrote on Monday, a "sharp rise in real interest rates" and "inflation surge" were the second and third most cited shocks cited by a New York Fed survey.

In the wake of the Fed's decision to begin pulling back on its stimulus, the Morning Brief discussed the way in which interest rates on government debt should be a barometer of the Fed's next moves (both its plans to taper bond purchases and upcoming rate hikes).

"Should" is the operative word here, given the topsy-turvy way in which the pandemic, the massive government response to mitigate its effects, and the lingering impact of bygone crises, is making a muddle of investors' ability to read the financial tea leaves. Bond yields have also been whippy, telegraphing the market's confusion about where things are headed.

But among Wall Street watchers, a clear picture is emerging about whether they think the Fed will be able to sit tight on rates — and it's less than encouraging.

Sam Stovall, chief investment strategist at CFRA Research, suggested that trying to compare the Fed's current plans to curtail stimulus to that of 2013-14 (the last time the central bank tried to unwind crisis-era policy) will "prove challenging, at best, since fundamentals are very different from that of eight years ago."

For a bunch of reasons these days, the past isn't necessarily prologue, but it can provide useful markers for where things are headed. In a research note, Stovall pointed out that at the time, headline consumer prices were below 2% (they're now above 5%), and the benchmark 10-year yield was nearly double its current levels. Meanwhile, gold was trading at a substantial discount.

But as the Morning Brief pointed out last week, hotter-than-expected inflation is going to provide an acid test for the Fed's willingness to delay liftoff of rates. And with jobs still being created at a healthy pace — and wages still on the rise — this week's consumer data will amplify the debate.

According to Stovall, "the Fed started raising short-term rates in December 2015, or nearly 14 months after the end of the tapering period. This time around, we think the Fed could start hiking six months later, as we see the first quarter-point rate hike coming in Q4 2022 and proceeding into 2023 at a measured pace."

He's not the only one who sees the Fed moving sooner rather than later. Over the weekend, analysts at Goldman Sachs warned that the imbalance between supply and demand will drag on longer than expected, "and the inflation overshoot will likely get worse before it gets better."

The bank warned that spiking goods inflation has become "the biggest surprise of 2021," and prompted analysts to yank rate hikes forward by an entire year, to July 2022.

"Subsequently, we expect a funds rate hike every six months, a relatively gradual pace that assumes a normalization in goods prices and in overall inflation (albeit later and more partial than we previously thought)," Goldman wrote.

"Beyond the next few years, we expect nominal policy rates across most [developed] economies to rise well beyond the rock-bottom levels now priced in the bond market," Goldman Sachs wrote.

One-Third Of Workers Might Leave Jobs If Not For Health Insurance

Employer-sponsored health insurance is likely keeping more employees from resigning.

PR Newswire

As record numbers of Americans leave their jobs in the "Great Resignation," a new survey finds health insurance is holding back some workers from joining the wave.

One in three full or part time workers (33%) would be very or somewhat likely to leave their jobs in the near future if health insurance weren't a factor, according to an annual survey from insurtech leader Policygenius.

More than one in four respondents (26%) said they'd be at least somewhat likely to start their own business if health insurance weren't a factor, and 37% of insured Americans ages 18 to 34 would be at least somewhat likely to pursue entrepreneurship if health insurance weren't a factor.

"People may have health conditions that would leave them in financial hardship if not for their employer-sponsored health insurance, so they decide to stick it out with their current employer instead of starting their own business or finding a job that could be a better fit," Myles Ma, health insurance expert at Policygenius, said.

The survey also found that people whose primary source of health insurance information is social media were more likely to avoid COVID-19 testing (39% of those getting health insurance information vs. 14% of those relying most on other sources), treatment (20% vs. 8%), and care (22% vs. 8%). According to the survey, **39% of people who use social media as their main source of health insurance information say they've ever avoided COVID-19 testing,** compared to only 11% of people who rely on government websites. One in five people (22%) who primarily rely on social media for health insurance information also said they have ever avoided COVID-19 care, compared to 7% of people who rely on government websites.

"Each year we've run this survey, we've found there's a lot of general confusion around basic health insurance literacy, but this year we also saw the impact of social media misinformation bear out in the number of people who've avoided COVID-19 testing and care," Ma said.

The fifth annual *Policygenius Health Insurance Literacy Survey* also found that:

- Among insured workers 18-34 years old, 40% expressed interest in leaving their jobs in the near future if health insurance weren't a factor.
- 28% of people rely on traditional media (e.g. websites, news apps, print, TV) as their primary source of health insurance information, compared to 27% who rely on friends and family, 22% on government websites, and 9% on social media.
- Just 28% of people were aware that there is currently no penalty for going without health insurance.

- Only 30% of Americans knew it was possible to receive financial assistance to get a plan from the federal health insurance marketplace.

Policygenius commissioned YouGov to poll a nationally representative sample of 1,410 Americans 18 or older, of whom 1,227 reported having health insurance at the time of the interview. The survey was carried out online from Sept. 10 through Sept. 13, 2021. The results have been weighted to be representative of all U.S. adults. The average margin of error was +/- 3%.

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