Health & Retirement Services of Illinois
Newsletter October 2021

OUR NEWS LETTER

Best and Worst States for Elderly Healthcare

By Insurance Forums Staff

In Our Newsletter

BEST AND WORST STATES FOR ELDERLY HEALTHCARE

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EFT`S AND TAXES

Senior Americans are constantly hunting for affordable, quality healthcare, and more U.S. adults are graying all the time. Each day, 10,000 Baby Boomers celebrate their 65th birthday.

That number will double in a few decades, leading to 20% of the U.S. population having surpassed that milestone by 2050.

Medicare of course plays a central part in healthcare for adults over 65 (nearly 63 million enrolled in 2020). Yet they don't all experience the same quality of care. Where you live matters.

MedicareGuide, which is part of the consumer health information website HealthCare.com, compared the states on measurements of cost, quality of care, and access to care. MedicareGuide looked at multiple factors such as prescription drug prices, doctors per capita and life expectancy to determine which states offered the best (and worst) healthcare for adults over 65.

The study compared all 50 states and Washington, D.C. to find out how they rank across measures of cost, access and quality.

Overall top-ranked Minnesota was rated best for average monthly insurance premiums. North Dakota, ranked second overall, scored best in terms of prescription drug prices per capita, according to the data.

The cost category includes out-of-pocket medical spending, while the quality measure analyzes mortality rates for heart disease, cancer and stroke, among other factors. Access includes rates of geriatricians, nurse practitioners and home health aides per capita.

Here are the states with the 10 best rankings:

1. Minnesota (66.70)
2. North Dakota (65.02)
3. Massachusetts (62.17)
4. California (61.72)
5. Nebraska (61.55)
6. Hawaii (60.85)
7. Montana (60.61)
8. Colorado (60.53)
9. Iowa (60.41)
10. Connecticut (60.02)

States in the Southeast tended to fall near the bottom of the rankings. The MedicareGuide rankings had Kentucky, South Carolina, Tennessee, Alabama, North Carolina, Louisiana and Mississippi at 40 and below.

The bottom five consisted of Louisiana (38.75), Mississippi (38.09), District of Columbia (38.04), Georgia (35.36) and faring worst, according to MedicareGuide, was Oklahoma (34.74), scoring barely half of high as Minnesota. Poor access to primary care particularly in rural parts of the state were a big reason Oklahoma ranked last.

Over 60% Of Americans Want Health Insurers To Cover Alternative Medicine

As health and wellness continue to evolve, many Americans have started to move towards more natural remedies to treat their illnesses. Some even feel doctors are too quick to prescribe prescription drugs, especially when alternative medicines can be just as effective.

According to a recent survey by ValuePenguin, more than half of Americans use at least one alternative medicine method and others mix traditional and alternative methods.

Key findings:

- **Alternative medicine is pretty mainstream.** 55% report using at least one form of alternative medicine or natural remedy to treat a health problem — most commonly herbal medicine, supplements or teas (24%). That's followed by essential oils (18%) and chiropractor visits (15%).
- **Younger Americans are more likely to use alternative medicines.** Just 44% of baby boomers use alternative medicine, compared to 67% of Gen Zers.
- **A lack of health insurance coverage presents problems for some fans of alternative medicine.** Nearly a third of Americans have had trouble getting their health insurance to cover alternative medicine treatments, and the majority of consumers (66%) want to see these types of treatments covered by insurers.
- **Most consumers use a mix of conventional and alternative medicine depending on the symptom or condition.** Allergies are the top condition consumers would treat with conventional medicine, while sore throats take the top spot for the symptom Americans would treat using alternative or natural medicine.
- **Many Americans are hesitant about taking conventional medication, as some believe doctors are too quick to prescribe pills.** 72% try to avoid medication when possible, and 62% of consumers think doctors are too quick to prescribe medication.

'Fat' 401(k)s causing people to retire early: Oxford Economics

The stock market's all-time highs are doing wonders for workers' 401(k)s, with the largest number of 401(k) and IRA millionaires in history, according to Fidelity data.

As a result, many people are dropping out of the workforce to retire earlier than planned, turning their backs on a job seeker's market.

The Federal Reserve is letting the economy run especially hot in an attempt to bring back people into the workforce, Oxford Economics' senior economist Bob Schwartz wrote in a note to clients. But that hot economy and resulting hot market mean bigger 401(k) balances – so some workers may not feel as compelled to continue working when they check their inflated retirement accounts.

"Some of the retirees may come back if the job market is hot enough, but the muscular boost to 401(k) plans over the past year may keep a larger fraction of senior workers on the golf course than anticipated," Schwartz wrote.

Last year, account balances increased 21% on average, largely thanks to the market's rise, rather than contributions, Vanguard reported. The fund firm's average and median 401(k) balances in 2020 hit $129,157 and $33,472, respectively.

Schwartz pointed out that the number of people who have retired has spiked since the pandemic began, with 2.5 million workers deciding enough is enough. Amid early pandemic layoffs, a lot of that was probably involuntary, as people cared for family members, lost their jobs. According to a May Federal Reserve report, 29% of 2020's retirees retired due to the pandemic.

The Fed wrote that it's likely many who retired because of Covid-19 would return to work, and now given the improved job market, there's even more reason to go back to work.

The big question, then, is whether these two factors balance each other out. Oxford Economics says no.

"One likely reason is that ageing baby boomers are entering their golden years with considerably stronger balance sheets than they expected, thanks to surging asset prices and lower debt burdens," Schwartz wrote, noting that household wealth increased 23% ($25.6 trillion) over the past year thanks to rising home values and ever-higher stock market.

“However, wealthy households with the fattest portfolios reaped the biggest gains, and it’s unlikely that their appreciated assets greatly affected retirement decisions,” Schwartz continued. “That said, it’s important to remember that older households hold more wealth than younger ones, and the improved balance sheets of senior workers may well have tipped them over into retirement.”

This would include even those in lower-paying jobs, which often provide access to retirement plans.

“Here the improvement over the past year has been even more remarkable. According to the Federal Reserve data, assets in defined contribution plans, mostly 401(k)s, surged by 34% over the past year, exceeding the gain in the broader measure of net worth by the widest margin in at least a decade,” Schwartz wrote.

With that big gain, according to Schwartz, “it’s not a stretch to believe that some senior workers feel they have enough to retire on a few years before their planned exit from the labor force.”

“Historically, when people retire,” he continued, “there is only a slim chance they return to work.”

Job switchers are the big winners in the pandemic labor market

Workers who changed jobs in the pandemic are getting better paychecks than those who stuck with their employer.

Job switchers saw their wages grow 5.8% year over year in June, while job holders experienced a 3.1% gain, according to a report by ADP derived from payroll data of 18 million workers. Overall, wage growth decelerated from the first quarter, while still growing 2.3% in June compared with a year earlier.

“There's been momentum in wage gains when it comes to job switchers,” Nela Richardson, chief economist at ADP, told Yahoo Money. “We're seeing with the latest second-quarter data a growing comfort in moving within jobs and within industry.”

To attract talent, employers are offering more competitive compensation and benefits, boosting wage growth among those who change jobs, according to Richardson. Some regions and industries saw larger gains in wage growth than others.

Job switchers in the Northeast and the West recorded the biggest wage growth of 8% and 7%, respectively, while those in the Midwest saw only a 3% increase in wages over the last year. When it comes to industries, job switchers in resources and mining, information, and finance saw the largest gains of 11.8%, 9.8%, and 7.5%, respectively.

“Some industries were barely tapped by the pandemic like finance, information technology,” Richardson said. “You can expect the competition for talent in those industries is much stronger than others.”

While leisure and hospitality has thee highest job-switching rate of 26% of all sectors, it experienced the smallest wage growth.

It's also the only sector that saw no gains for both job switchers and holders. Wages for those who remained at their jobs dropped by 1.4% from a year earlier, while wages for those who switched jobs declined by 1.3% for the same period.

“In those pockets of the economy that were slammed by the pandemic, you're not seeing that same healthy outlook by employees,” Richardson said. “The story of recovery is not whether you hold your job or you switch jobs, you're going make less money. That's not a healthy labor market.”

However, the Labor Department's Employment Cost Index showed that wages and salaries increased by 6.1% for the leisure and hospitality sectors in June from a year

earlier. But Richardson pointed out that the Bureau of Labor Statistics relies on surveys of employers, rather than payroll data like ADP's report.

The rate at which workers quit their jobs reached a record high in April and remained elevated in May, while the number job openings hit a historic high. The high level of job changes may be here to stay for some time, according to Richardson.

"It'll be with us for a while, it's going to be part of the recovery process," she said. "It's emblematic of an economy that's increasing in its health and resiliency. That is a good indicator that people feel confident to switch first of all, and secondly that there are returns in doing so."

ETFs and Taxes: What You Need to Know

Exchange-traded funds (ETFs) have a well-deserved reputation for tax efficiency, but a close look at how the tax code treats the various types of ETFs in the market reveals quite a bit of complexity. If you want to understand the ins and outs of capital gains distributions, dividends, interest, K-1 statements, collectibles tax rates, and more, read on. You could save some money at tax time.

Tax efficiency of equity ETFs and bond ETFs

ETFs owe their reputation for tax efficiency primarily to equity ETFs, which can hold fewer than 25 to more than 7,000 different stocks. Although similar to mutual funds in this regard, equity ETFs are generally more tax-efficient because they tend not to distribute a lot of capital gains.

This is in large part because most ETFs are passively managed by fund managers in relation to the performance of an index, whereas mutual funds are generally actively managed. ETF managers also have options for reducing capital gains when creating or redeeming ETF shares.

Remember, ETFs that hold dividend-paying stocks will ultimately distribute those dividends to shareholders—usually once a year although dividend-focused ETFs may do so more frequently. ETFs holding bonds that pay interest will also distribute that interest to shareholders—monthly, in many cases. The IRS taxes dividends and interest payments from ETFs just like income from the underlying stocks or bonds, with the income being reported on your 1099 statement.

Profits on ETFs sold at a gain are taxed like the underlying stocks or bonds as well. If your overall modified adjusted gross income is above a certain threshold ($200,000 for single filers, $125,000 for married filing separately, $200,000 for head of household, and $250,000 for married filing jointly or a qualifying widow(er) with a dependent child), you'll owe an additional 3.8% Net Investment Income Tax (NIIT). In our discussion, the maximum rates include the NIIT.

With that said, equity and bond ETFs held for more than a year are taxed at the long-term capital gains rates—up to 23.8%. Equity and bond ETFs you hold for less than a year are taxed at the ordinary income rates, which top out at 40.8%.

Precious metals ETFs: collectibles tax rate

Investors who use ETFs to gain exposure to precious metals, such as silver and gold, may face a different set of tax issues. For example, ETFs backed by the physical metal itself (as opposed to futures contracts or stock in mining companies) are structured as grantor trusts. A grantor trust does nothing but hold the metal; it doesn't buy and sell futures contracts or anything else.

The IRS treats investment in a precious metals ETF the same as an investment in the metal itself, which—for tax purposes—would be considered an investment in collectibles. The maximum long-term capital gains rate on collectibles stands at 31.8%, which is higher than the 23.8% top capital gains rate you'd pay for an equity ETF. On the other hand, short-term gains on collectibles are taxed as ordinary income.

This doesn't mean you should avoid precious metals as a tool for diversifying your portfolio. However, you should be aware of the different tax treatment to avoid surprises.

Other commodity ETFs: K-1s and the 60/40 rule

ETFs that invest in commodities other than precious metals—such as oil, corn, or aluminum—do so via futures contracts, primarily because holding the physical object in a vault is impractical.

The use of futures can have a big impact on a portfolio's returns because of contango and backwardation—that is, whether the futures contracts are more (contango) or less (backwardation) expensive than the market price of the commodity. In addition, futures come with tax implications.

Many ETFs that use futures are structured as **limited partnerships** and report the investor's share of partnership income on Schedule K-1 instead of Form 1099. Some investors are wary of K-1s because they're more complex to handle on a tax return, and the forms tend to arrive late in tax season. Investors may also worry about incurring unrelated business taxable income (UBTI) from their limited partnership investments that could be taxable even within an IRA.

That said, commodity ETFs overall have a track record of sending K-1s in a timely manner (though usually sometime after most 1099s are available) and not generating UBTI. K-1s are indeed more complex to handle on a tax return than 1099s, but professional tax preparers or well-informed individuals who do their own taxes should be able to handle K-1s correctly.

Another noteworthy tax feature of ETFs that hold commodity futures contracts is the 60/40 rule. This rule, from IRS Publication 550, states that any gains or losses realized by selling these types of investments are treated as 60% long-term gains (up to 23.8% tax rate) and 40% short-term gains (up to 40.8% tax rate). This happens regardless of how long the investor has held the ETF.

The blended rate could be an advantage for short-term investors (because 60% of gains receive the lower long-term rate) but a disadvantage for long-term investors (because 40% of gains are always taxed at the higher short-term rate).

Furthermore, at the end of the year, the ETF must "mark to market" all of its outstanding futures contracts, treating them—for tax purposes—as if the fund had sold those contracts. Thus, if the ETF holds some contracts that have appreciated in value, it will have to realize those gains for tax purposes and distribute them to investors (who must then pay taxes on the gains following the 60/40 rule).

To avoid the complexities of the partnership structure, newer commodity ETFs have been launched that typically invest up to 25% of their assets in an offshore subsidiary (usually in the Cayman Islands). Although the offshore subsidiary invests in futures contracts, the ETF's investment in the subsidiary is considered by the IRS to be an equity holding.

With the rest of its portfolio, the ETF may hold fixed-income collateral (typically Treasury securities) or commodity-related equities. This allows the fund to be structured as a traditional open-end fund, which won't distribute a K-1 and is taxed like an equity or bond ETF at the same ordinary income and long-term capital gains rates.

Currency ETFs

Currency ETFs come in several different forms. Some are structured as open-end funds, also known as '40 Act funds, much like most equity and bond ETFs. Gains from the sale of these funds are taxed just like equity and bond ETFs: up to the 23.8% long-term rate or the 40.8% short-term rate.

Other currency ETFs are structured as grantor trusts. Gains from selling these funds are always treated as ordinary income (currently up to the 40.8% rate).

Currency ETFs structured as limited partnerships are taxed just like commodity limited partnerships—with K-1 statements and 60/40 long-term/short-term capital gains treatment.

The bottom line with currency ETFs is that you should read a fund's prospectus to see how the particular ETF will be taxed.

Should you invest in exchange-traded notes (ETNs)?

We often caution investors to carefully consider credit risk before investing in exchange-traded notes (ETNs). Instead of being backed by a portfolio of securities that are independent from the assets of an ETF manager, ETNs are bonds backed by the credit of the issuer. Thus, if the issuer is unable to pay back the ETN shareholders, the shareholders will lose money. That said, it's worth noting that ETNs have their own tax situations.

Because ETNs don't hold securities of the underlying index, they generally don't distribute dividends or interest. However, when you sell an ETN, you still could be subject to short- or long-term capital gains tax.

Equity and bond ETNs work pretty much the same as their ETF equivalents, with long-term gains taxed up to 23.8% and short-term gains taxed as ordinary income.

Commodity ETNs are generally taxed much like equity and bond ETNs, with long-term gains taxed up to 23.8% and the ordinary federal rate of up to 40.8% applying to short-term gains.

The true oddball here is the currency ETN. Similar to a currency ETF structured as a grantor trust, the IRS has ruled that gains from selling currency ETNs are to be taxed as ordinary income at up to 40.8%, even if held for the long term.

How are ETFs and ETNs taxed in 2021?

The table below gives a quick recap of tax rates for the various ETFs and ETNs we discussed:

Type of ETF or ETN	Tax treatment on gains[1]
Equity or bond ETF	Long-term: up to 23.8% maximum[2] Short-term: up to 40.8% maximum
Precious metal ETF	Long-term: up to 31.8% maximum Short-term: up to 40.8% maximum
Commodity ETF (limited partnership)	Up to 30.6% maximum, regardless of holding period (Note: This is a blended rate that is 60% maximum long-term rate and 40% maximum short-term rate)
Currency ETF (open-end fund)	Long-term: up to 23.8% maximum[2] Short-term: up to 40.8% maximum
Currency ETF (grantor trust)	Ordinary income (up to 40.8% maximum), regardless of holding period

Type of ETF or ETN	Tax treatment on gains[1]
Currency ETF (limited partnership)	Up to 30.6% maximum, regardless of holding period (Note: This is a blended rate that is 60% maximum long-term rate and 40% maximum short-term rate)
Equity or bond ETN	Long-term: up to 23.8% maximum[2] Short-term: up to 40.8% maximum
Commodity ETN	Long-term: up to 23.8% maximum[2] Short-term: up to 40.8% maximum
Currency ETN	Ordinary income (up to 40.8% maximum), regardless of holding period

Source: IRS.gov.

[1]Note: These rates include the 3.8% Net Investment Income Tax that is applied to investment income if your overall modified adjusted gross income (MAGI) is above certain income thresholds. This is often referred to as the "Medicare surtax" and is layered on top of the other income tax rate you owe on that income.

[2]Up to a 20% tax rate on net capital gains applies to the extent that a taxpayer's taxable income exceeds $445,850 for single filers, $501,600 for married filing jointly or qualifying widow(er), $473,750 for head of household, and $250,800 for married filing separately.

What does it all mean?

These tax rates only apply if you hold ETFs and ETNs in a taxable account (like your brokerage account), rather than in a tax-deferred account (like an IRA). If you hold these investments in a tax-deferred account, you generally won't be taxed until you make a withdrawal, and the withdrawal will be taxed at your current ordinary income tax rate.

If you invest in stocks and bonds via ETFs, you probably won't be in for many surprises. Investing in commodities and currencies is certainly more complicated. As more exotic ETFs come to market, we'll possibly see new tax treatments, and no tax law is ever set in stone. Always consult with your tax professional for any questions about the taxation of ETFs.

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