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Your Money Matters.

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Happy New Year! Thank you for taking a few minutes to read our newsletter. We've hand-picked the following articles in response to questions that we have been hearing from our clients and radio listeners over recent months; we hope you find them valuable!

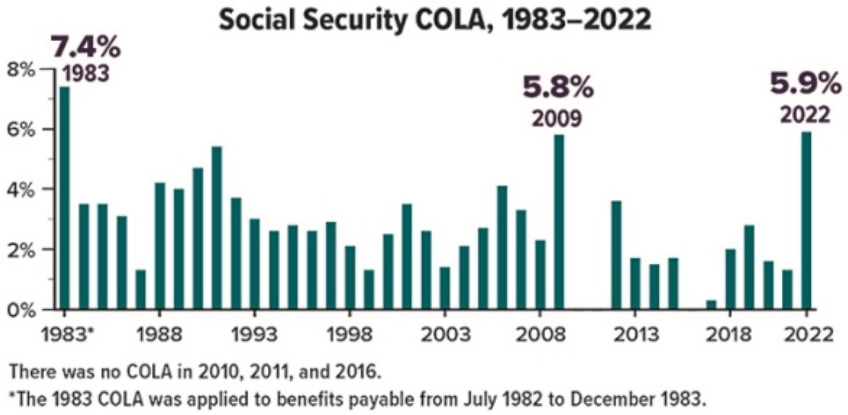
In this issue of our newsletter we update readers on this year's historic social security COLA increase, the benefits of combining different types of retirement accounts, financial literacy principles and other content that we think you'll find interesting.

Be sure to tune in to AM790, weeknights at 5PM, to hear Don, Steven, Donna and Nathan discuss the topics that matter to you on the MoneyTalk radio program. Missed tonight's show? Listen to MoneyTalk Radio anytime by searching "DON SOWA'S MONEYTALK" wherever you get your podcasts!

Big Boost for Social Security Payments

The Social Security cost-of-living adjustment (COLA) for 2022 is 5.9%, the largest increase since 1983. The COLA applies to December 2021 benefits, payable in January 2022. The amount is based on the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from Q3 of the last year a COLA was determined to Q3 of the current year (in this case, Q3 2020 to Q3 2021).

Despite these annual adjustments for inflation, a recent study found that the buying power of Social Security benefits declined by 30% from 2000 to early 2021, in part because the CPI-W is weighted more heavily toward items purchased by younger workers than by Social Security beneficiaries.



Sources: Social Security Administration, 2021; The Senior Citizens League, August 11, 2021

401(k) and IRA: A Combined Savings Strategy

Contributing to an employer-sponsored retirement plan or an IRA is a big step on the road to retirement, but contributing to both can significantly boost your retirement assets. A recent study found that, on average, individuals who owned both a 401(k) and an IRA at some point during the six-year period of the study had combined balances about 2.5 times higher than those who owned only a 401(k) or an IRA. And people who owned both types of accounts consistently over the period had even higher balances.[1]

Here is how the two types of plans can work together in your retirement savings strategy.

Convenience vs. Control

Employer-sponsored plans such as 401(k), 403(b), and 457(b) plans offer a convenient way to save through pre-tax salary deferrals, and contribution limits are high: $19,500 in 2021 ($20,500 in 2022) and an additional $6,500 if age 50 or older. Although the costs for investments offered in the plan may be lower than those offered in an IRA, these plans typically offer limited investment choices and have restrictions on control over the account.

IRA contribution limits are much lower: $6,000 in 2021 and 2022 ($7,000 if age 50 or older). But you can usually choose from a wide variety of investments, and the account is yours to control and keep regardless of your employment situation. If you leave your job, you can roll assets in your employer plan into your IRA.[2] Whereas contributions to an employer plan generally must be made by December 31, you can contribute to an IRA up to the April tax filing deadline.

Matching and Diversification

Many employer plans match a percentage of your contributions. If your employer offers this program, it would be wise to contribute at least enough to receive the full match. Contributing more would be better, but you also might consider funding your IRA, especially if the contributions are deductible (see below).

Along with the flexibility and control offered by the IRA, holding assets in both types of accounts, with different underlying investments, could help diversify your portfolio. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Rules and Limits

Although annual contribution limits for employer plans and IRAs are separate, your ability to *deduct* traditional IRA contributions phases out at higher income levels if you are covered by a workplace plan: modified adjusted gross income (MAGI) of $66,000 to $76,000 for single filers and $105,000 to $125,000 for joint filers in 2021 ($68,000 to $78,000 and $109,000 to $129,000 in 2022).[3] You can make nondeductible contributions to a traditional IRA regardless of income. Eligibility to contribute to a Roth IRA phases out at higher income levels regardless of coverage by a workplace plan: MAGI of $125,000 to $140,000 for single filers and $198,000 to $208,000 for joint filers in 2021 ($129,000 to $144,000 and $204,000 to $214,000 in 2022).

Percentage of U.S. households with tax-advantaged retirement savings accounts

Source: Investment Company Institute, 2021

Contributions to employer-sponsored plans and traditional IRAs are generally made on a pre-tax or tax-deductible basis and accumulate tax deferred. Distributions are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½ (with certain exceptions). Nondeductible contributions to a traditional IRA are not taxable when withdrawn, but any earnings are subject to ordinary income tax. Required minimum distributions (RMDs) from employer-sponsored plans and traditional IRAs must begin for the year you reach age 72 (70½ if you were born before July 1, 1949). However, you are generally not required to take distributions from an employer plan as long as you still work for that employer.

Roth IRA contributions are not deductible, but they can be withdrawn at any time without penalty or taxes. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and take place after age 59½ (with certain exceptions). Original owners of Roth IRAs are exempt from RMDs. Beneficiaries of all IRAs and employer plans must take RMDs based on their age and relationship to the original owner.

1) Employee Benefit Research Institute, 2020

2) Other options when separating from an employer include leaving the assets in your former employer's plan (if allowed), rolling them into a new employer's plan, or cashing out (usually not wise).

3) If you are not covered by a workplace plan but your spouse is covered, eligibility phases out at MAGI of $198,000 to $208,000 for joint filers in 2021 ($204,000 to $214,000 in 2022).

Annuity Income: Annuitization vs. Lifetime Withdrawal

During your working years, you're accustomed to living on an income from your job. When you retire, the income from employment ends. Social Security provides a steady income, but it probably isn't enough to meet your retirement income needs. An annuity is an option that can provide a stream of income during retirement.

With most annuities, there are usually two choices available to generate a steady income: annuitization and lifetime withdrawals from a guaranteed lifetime withdrawal benefit. Here's how each option works.

Annuitization

This is a fancy word to describe converting funds in an annuity into a stream of income for a fixed period or a lifetime. Often, once the annuity is annuitized, it can't be changed, reversed, or revoked — you're pretty much locked into the payments for the duration of time chosen.

The amount of annuitization payments is based on several factors, including the duration of the annuity payments (either a fixed period or lifetime), the cash value of the annuity, current interest rates applied by the annuity issuer, and the age of the person (referred to as the "annuitant") over whose life the payments are based. With annuitization payments from nonqualified annuities (i.e., annuities funded with after-tax dollars), each distribution consists of two components: principal (a return of the money paid into the annuity) and earnings. The percentages of principal and earnings for each distribution will depend on the annuitization option chosen.

Guaranteed Lifetime Withdrawal Benefit

A guaranteed lifetime withdrawal benefit (GLWB) enables the annuity owner to receive payments without having to annuitize the annuity or give up access to remaining cash value in the annuity. Typically, an annual fee is charged for a GLWB.

The amount of the GLWB payment is usually determined by applying a withdrawal percentage to the annuity's principal amount or cash value, whichever is greater at the time of election. The amount of each withdrawal is subtracted from the cash value. Generally, the amount of the withdrawal will not decrease, even if the cash value decreases or is exhausted. Optional benefits are available for an additional fee and are subject to contractual terms, conditions and limitations as outlined in the prospectus and may not benefit all investors.

Annuitization vs. Lifetime Withdrawal

Annuitization	Lifetime Withdrawals
Potentially higher payouts	Lower payouts
Tax-favored treatment of nonqualified withdrawals	Payments are treated as distribution of earnings first until exhausted, then principal
No fees	Additional cost for rider
Payments generally can't be stopped or changed	Option to start/stop payments
No access to annuity cash value	Access to annuity cash value that may earn interest during withdrawals
Lifetime payments for single or joint lives	Lifetime payments for single or joint lives
May not offer lump-sum death benefit	Lump-sum death benefit of remaining cash value payments continue even if cash value is exhausted

Annuities are designed to be long-term investment vehicles. Generally, annuity contracts have fees, expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Surrender charges may be assessed during the early years of the contract if the annuity is surrendered. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty. Any annuity guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Annuities are not insured by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association.

Four Basic Principles of Financial Literacy

It is widely recognized that financial literacy impacts a person's overall economic success. In fact, studies have shown that individuals who are exposed to economic and financial education at an early age are more likely to exhibit positive financial behaviors when they are older (e.g., maintaining high credit scores, accumulating wealth). As a result, many states are requiring high school students to take a course in either economics or personal finance before they graduate.[1]

Whether you are just starting out and beginning to manage your own finances or simply want to stay on top of your current financial situation, it's important to always keep these basic principles of financial literacy in mind.

1. Create a budget and stick with it. A budget helps you stay on track with your finances. Start by identifying your income and expenses. Next, compare the two totals to make sure you are spending less than you earn. Hopefully, your budget is still on the right track. If you find that your expenses outweigh your income, you'll need to make some adjustments. Finally, while straying from your budget from time to time is normal, once you have a solid budget in place it's important to try to stick with it.

2. Set financial goals. Setting goals is an important part of life, particularly when it comes to your finances. Short-term goals may include saving for a new car or building an emergency fund, while long-term goals may take more time to achieve (e.g., saving for a child's education or retirement). Over time, your personal or financial circumstances will most likely change, so you'll need to be ready to make adjustments and reprioritize your goals as needed.

3. Manage your credit and debt. Reducing debt is part of any healthy financial plan. Whether you have student loan debt, an auto loan, and/or a credit-card balance, you'll want to pay it down as quickly as possible. Start by tracking all of your balances while being mindful of interest rates and hidden fees. Next, optimize your repayments by paying off any high-interest debt first and/or taking advantage of a debt consolidation/refinancing program.

4. Protect yourself. When it comes to insurance coverage, are you adequately protected? Having the appropriate amount of insurance to help protect yourself against possible losses is an important part of any financial strategy. Your insurance needs will depend on your individual circumstances and can change over time. As a result, you'll want to make sure your coverage properly aligns with your income and family/personal circumstances.

[1] 2020 Survey of the States, Council for Economic Education