



1. THE CASE FOR OPTIMISM IN 2021:

“How can you be upbeat about a ‘post-pandemic future’ when there’s so much pain and uncertainty right now,” a colleague asked me the other day, as we were ending up another zoom call on the subject.

Good question, I had to admit. Here it is December and things are even worse than in March. How can this be happening? A surge in coronavirus cases on top of a surge in cases. People dying daily by the thousands.

Scenes of unspeakable grief. Healthcare workers and hospital systems stressed to the max. The economy in shambles. A defeated American president claiming that he “won big” and refusing to concede.

But there’s also cause for optimism right now, if you know where to look.

For starters, there is less uncertainty in the timeline now. This is different. This is the beginning of the end. “The United States will most likely reach an epidemiological end to the pandemic in Q3 or Q4 of 2021,” McKinsey forecasts. If not sooner.

As vaccines start inoculating millions of people, and a new team assumes leadership in Washington, consider how the mood will begin to brighten. What better time than now to ponder the shape of the post-pandemic world. What better time than now to take stock of what has changed because of the pandemic, and the free and fair election of a new leader. And what better time to look at how you and your organization might capitalize on the upswing.

Pandemics have a way of upsetting the status quo. In the 14th century, the Bubonic Plague decimated half of Europe’s population, and a third of the worlds. When it ended, there was jubilation and dancing in the streets. A labor shortage caused by so many deaths led to the end of feudalism and centuries of unchanging drudgery for the masses. Inventions such as the printing press spurred the spread of knowledge and ideas across distances. This in turn spawned the scientific revolution, the industrial revolution, and the birth of a then-radical notion of democracy -- the elections of leaders. In short, things got better.

The challenge now, in the midst of this dark winter of our discontent, is to visualize the spring. To exercise our forward-thinking capacity. To

marinate in what I call “dreamer mode,” and unleash visions of how we want it to be. In my work with strategic planning teams in government and industry, this is what I help leaders do. To focus beyond present state and present day execution, into “future state.” To think beyond merely rebuilding and restoring (the rule of law, Paris Accords, fired whistleblowers, etc.), but upon the opening that Covid-19 has provided to change the world for the better.

The role of the visionary in society is to inspire. To urge us to see not just what is, but what can be. Forward-thinking leaders help us shake up our thinking. They challenge us to aim higher, to go for moonshots. The world, and the United States in particular, is beset with huge problems right now, beyond even the pandemic. But these problems are ones we created and therefore they are not beyond our reach to solve. What is required though, is that we assault our assumptions.

Many see deep division and American democracy on the verge of collapse. Others, like private equity innovator and political activist Edward McKinley, see things in a different light.

“The last time we had this level of participation in the political process was 120 years ago,” McKinley pointed out in a recent zoom call. “One of the most consequential politicians of our time produced a partisan reaction that drove people to the polls in unprecedented numbers. While many of us believe he tried to undermine the system, what he ended up doing was energizing the system.”

The quickest way to energize any system is to help it dream big about the future.

Back in the '80s when I taught in the Writers Program at UCLA, I'd invite my students to design a day in their future. Visualize 10 years out. Describe the view over the breakfast table, I'd challenge them, and write about it. What's working for you? What are you doing with your life that's bringing you satisfaction? They found it refreshing, they reported, because they'd never thought that way before.

Take a moment to visualize 10 years out from now, when this period will seem like a bad dream. Imagine the kind of future you want to be living in. Think about a world where the pandemic is history. Where civility is again the norm. Where progress is being made towards solving our biggest problems. Think about a different state of affairs. A different state of mind.

Imagine how you're going to be encouraged and energized by this new year 2021. Think about what you've learned about yourself as a result of living through a global pandemic. Think about what you value now more than ever before because of its absence. Think about what you want to happen.

Such mental exercises are good therapy. They activate the "endorphins of possibility." And they go a long way to creating the future you want to

live in because if you can see it, you might just be able to actualize it. Robert Tucker, *Forbes*, www.forbes.com, December 8, 2020.

2. CAN THE 4% RULE BE SALVAGED?

My colleague Catherine Brock recently made a compelling case for why the traditional 4% rule for retirement savings may be at risk because of the craziness that 2020 has brought us. The challenge presented by that article, however, is that the most straightforward solution -- save more -- is easier said than done.

Shifting to a 3% or 3.5% rule may make a person's retirement portfolio more sustainable, but it comes with two very big risks. First, hitting that target is harder than hitting one based on the 4% rule. Second, stretching for the bigger nest eggs those numbers require puts you at a greater risk of saving too much, spending too little, and not enjoying the money you worked your career to save. Those risks raise a key question: Can the 4% rule be salvaged?

What is the 4% rule anyway?

The 4% rule is a retirement planning guideline that helps people plan for and budget during retirement. Based on its principles, you can spend 4% of the value of your retirement portfolio in the first year of your retirement and adjust your withdrawals for inflation every year after that. The back testing behind that rule indicates that you have a very strong chance of seeing your money last at least as long as a 30-year retirement.

It has been a great guideline not just because of its relative simplicity, but also because it recommends a target that's within reach for many people. Withdrawing 4% of your initial balance means you'll need 25 times your first year's expenses socked away. So if you need your portfolio to cover \$3,000 per month (\$36,000 per year), you'd need to retire with a \$900,000 nest egg. That takes a long time to reach, but it is generally achievable for those that start early and save consistently.

What's wrong with it?

The key challenge with the 4% rule in the modern world, however, is that it requires you to start with and maintain a balanced 50% stock, 50% bond portfolio. With interest rates near all-time lows, bond funds provide nearly no return and may be at risk of serious declines as rates rise. In addition, as investors have shifted into stocks to try to get any chance of positive returns *today*, that puts pressure on *future* stock returns as shares have generally risen faster than earnings.

It's that backdrop of a potential world where *both* stocks and bonds underperform their historic rates of return that make very smart people question whether the 4% rule still makes sense today. The problem becomes that shifting from a 4% rule to a 3% rule shifts that \$900,000 nest egg to \$1,200,000 to cover the same \$36,000 in first year expenses. That adds *years* and/or lots of extra money to the amount you need to work and save to retire, putting it that much farther out of reach.

What else can you adjust?

Aside from saving more money, a different adjustment you can make is to own a portfolio with a higher potential rate of return than the 50% stocks, 50% bonds one designed into the original 4% rule. That means owning a higher proportion of stock, which means more volatility, but a better chance of getting a high enough portfolio return to make the plan work overall.

To give that plan a shot of working, though, you still need to protect yourself against the market dropping in the near term. One way to attempt that is to keep at least five years' worth of the expenses you need to cover in cash and an investment grade bond ladder. That will give you higher certainty of having the money you need in the near term when you need it, while giving the rest of your money more opportunity to grow more for the long run in stocks.

Assuming you are planning for your first day of retirement to be Jan. 1, 2021, your initial retirement portfolio might look something like this:

Spending Year	Investment	Spending Amount	Invested Amount
2021	Cash	\$36,000.00	\$36,000.00
2022	1-Year Bonds	\$37,440.00	\$38,000.00
2023	2-Year Bonds	\$38,937.60	\$39,000.00
2024	3-Year Bonds	\$40,495.11	\$41,000.00
2025	4-Year Bonds	\$42,114.92	\$43,000.00
Beyond	Stocks	N/A	\$703,000.00

This structure gives you five years' worth of expected spending in cash and bonds, while building in 4% per year for anticipated inflation. That's higher than inflation has been in a long time, and pre-planning for it gives you some buffer in case inflation does come roaring back.

Each year, you'd spend your cash, which gets replenished by your maturing bonds. To attempt to make the structure sustainable, you'd plan to collect your interest and dividends and put them in bonds to start making up the next year's rung. On top of that, if the market performed around as you expect, you'd convert some of your stocks into bonds until you topped off the next year's rung.

Of course, since the stock market is volatile, it won't always perform exactly as you expect. If the stock market drastically over-performs, you would add another year (or more) to your bond ladder. If, on the other

hand, the stock market drastically under-performs, you'd let the bond ladder shrink until the market showed signs of recovery.

If you continue to project 4% inflation, you'd need the 2026 rung on your bond ladder to be \$44,000. Assuming 1% interest on both your bonds and a similar yield your stocks, you'd get around \$8,600 in portfolio income in your first year. That would leave a gap of \$35,400 you'd have to close by selling stocks. That would require your stocks to grow a little above 5%. That's below the market's historic long-run growth rate, which makes it a reasonable long-term target to consider.

Does this save the 4% rule?

Managing your retirement money like that would give you a fighting chance of being able to keep your targeted nest egg to a level the 4% rule would support, but it certainly isn't risk free.

Key among the risks is that it uses around a 75% initial allocation to stocks, which is higher than most traditional guidance recommends. Although the five year cash and bond ladder gives you a good opportunity to be patient and let the stock market recover from a crash, it may not be enough time to recover from a really bad one. You can extend your initial ladder to give you more breathing room, but that comes at the expense of needing your stocks to perform better to replenish your bond ladder as your holdings mature.

In addition, since you are pre-projecting an inflation rate in this model, if

inflation comes in significantly ahead of what you've planned for, you can find yourself coming up short. Some of that can be managed by spending some of the dividends and interest you receive, but that also comes with the trade-off of needing faster growth from your stocks to replenish your maturing bond ladder.

Despite those risks, there's good reason to believe this adjustment could work. Chief among them is that the original paper that sparked the 4% rule suggests that a 75% stock allocation also has a strong chance of success over a 30-year time horizon.

Choose your trade-offs and build your plan

In today's environment, it's very clear that there are no certainties when it comes to investing for your retirement. The best you can do is recognize the risks, understand the trade-offs between time, money, potential returns, and allocation options, and make an educated choice while you're planning for it.

As you get closer to your actual retirement date, what you'll likely find is that you appreciate the flexibility that having a decently sized nest egg gives you. That way, when you're close in both age and finances to where you want to be, you can make a game-time decision based on what matters most to you then. When all is said and done, that flexibility may very well become the part of your retirement plan you appreciate the most. Chuck Saletta, The Motley Fool, www.fool.com, December 27, 2020.

3. WHICH RETIREMENT ACCOUNT IS BEST FOR YOU?:

Before you reach retirement age, you'll need to think about which type of retirement plan is best for you. Given today's political and economic uncertainties, planning for your golden years can be complicated and create fears of losing your hard-earned money.

Begin by learning the differences between specific retirement plans. What are your current needs and your future goals? Getting an early start can make all the difference. For instance, if you begin diverting a piece of your paycheck now into a [savings plan for retirement](#), you could grow your wealth and be financially secure when you're ready to retire.

Types of Retirement Plans – Defined contribution retirement plans

A defined contribution plan gives the employee and employer a way to contribute a fixed amount of money toward the employee's retirement. Congress passed "The Revenue Act of 1978," which paved the way for different types of 401(k) and 403(b) plans. These two are the most popular investment plans in use today. Currently, about 84% of companies on the Fortune 500 list offer direct contribution plans rather than your average pension.

Understanding your 401(k) and 403(b) plans

The main difference between 401(k) and 403(b) plans is that 401(k) plans are for private sector employee/employer contributions and 403(b) plans are for the non-profit sector.

With a 401(k) or 403(b) plan, you have many benefits. Some of the main benefits include employer matching, certain types of tax breaks, and higher contribution limits. The current contribution limit for 2020 is \$19,000, or \$25,000 for employees that are 50 years old and over.

Types of Retirement Plans – The most common types of IRA accounts

IRAs are a valuable retirement plan instituted by the federal government in 1974. Congress passed the Employee Retirement Income Security Act (ERISA) to assist workers in saving for their retirement. Since not all companies offer retirement plans to their employees, IRAs allow individuals to create their own retirement plans. With all the different types of IRAs, it can seem a bit confusing.

There are several advantages to opening an IRA account. The main types of accounts (ROTH and traditional) are the most common. Both accounts allow you to take control of the types of investments you feel are best for you. You can invest in gold, stocks, art, mutual funds, and other investments. Both also offer tax-free growth on dividends or capital gains until distribution.

Traditional IRA:

Traditional IRAs allow an individual to contribute pre-tax dollars. Once you retire or reach the age of 59 ½ and older, you can begin taking withdrawals. The IRS will treat this as ordinary income. This account is

best for people who believe their tax rate will be lower when they retire.

Roth IRA:

Roth IRA contributions are not tax-deductible, which means that you use after-tax dollars to fund your account. Since you paid the taxes already on your contributions, you can withdraw the funds at any time penalty-free. Not everyone can qualify to open a Roth IRA.

Retirement Accounts for the Self-Employed and Small Business Owners

What if you own your own business or you're self-employed? It doesn't mean you can't have a retirement account. Here are a few options for the self-employed and small business owners.

Solo 401(k)

Also known as the self-employed 401(k), qualifications for this type of account require that you have no full-time employment elsewhere, have no full-time employees, and that you only claim self-employment income.

SEP IRA

There are specific requirements that must be met for employees to participate, such as:

- Be at least 21 years of age and
- Employed with the company for at least 3 years

If your income is more than \$285,000, you will not qualify.

Simple IRA

A savings incentive match plan is a retirement account for small businesses with less than 100 employees. Employers can offer up to 2% of the employee's salary to be contributed to the employee's retirement account. The employee can contribute up to \$13,500 per year. Employees that are 50 years old and older may contribute up to \$16,500.

It's best to have your financial advisor go over the details of each plan with you. Umesh Agarwal, Influencive, www.influencive.com, December 25, 2020.

4. SOME MEDICARE COSTS ARE HIGHER IN 2021. HERE'S HOW YOU MAY BE ABLE TO CUT THEM:

As happens every time the calendar flips to a new year, Medicare cost adjustments are about to take effect. This generally means paying more for some parts of your coverage, effective Jan. 1. For Medicare's 63 million beneficiaries -- most of whom are 65 or older -- certain costs change year to year and can affect premiums, deductibles, and other cost-sharing. While the upward adjustments don't necessarily involve huge dollar amounts, they can add up.

"Though the increases are small, we do see retirees worry over them," said Danielle Roberts, co-founder of insurance firm Boomer Benefits. "For folks living on just Social Security, increases of even just a few

dollars are a concern.”

Basic Medicare consists of Part A (hospital coverage) and Part B (outpatient care). About 40% of beneficiaries choose to get those benefits delivered through Advantage Plans, which are offered by private insurers. Most of those plans also include Part D prescription drug coverage and extras such as dental or vision.

Other beneficiaries stick with basic Medicare and pair it with a standalone Part D prescription drug plan. Some also purchase a supplement plan -- aka [Medigap](#) -- which picks up some expenses in basic Medicare, such as coinsurance or copays.

Here are 2021 costs, as well some tips for reducing your outlay.

Parts A and B

Most Medicare beneficiaries pay no premium for Part A because they (or their spouse) have enough of a work history -- at least 10 years -- of paying into the program through payroll taxes to qualify for it premium-free.

If you don't meet the minimum requirement, though, monthly premiums for 2021 could be as much as \$471 a month, [depending on whether you've paid](#) any taxes into the Medicare system at all. That maximum is up from \$458 in 2020.

MEDICARE PART A DEDUCTIBLE AND COINSURANCE

TYPE OF COST-SHARING †	2020 ‡	2021 ‡
SKILLED NURSING FACILITY COINSURANCE DAYS 21 - 100	\$176	\$185.50
DAILY COINSURANCE FOR 61ST-90TH DAY	\$352	\$371
DAILY COINSURANCE LIFETIME RESERVE DAYS	\$704	\$742
INPATIENT HOSPITAL DEDUCTIBLE	\$1408	\$1484

Also for Part A, if you have no additional coverage -- 6.1 million beneficiaries did not, [at last count](#) -- you'd pay a \$1,484 Part A deductible if you're admitted to the hospital in 2021 (up from \$1,408 this year).

That deductible would cover the first 60 days per benefit period. Beyond that, daily copays of \$371 (up from \$352) apply through the 90th day. Anything above dips from "lifetime reserve" days at a daily rate of \$742 (up from \$704).

The standard Part B premium for 2021 is \$148.50, up from \$144.60. The 2021 Part B deductible is \$203, compared with \$198 this year.

Once you meet that deductible, you typically pay 20% of covered services. Keep in mind that beneficiaries in Advantage Plans might pay a different amount through copays, and Medigap policies either fully or partially cover that coinsurance.

If you struggle to pay for coverage, you may qualify for a [Medicare](#)

Savings Program, which is administered through state Medicaid offices and are generally available to beneficiaries with low income. There are several versions of the program, each of which depends at least partly on your income. The options also come with limits on your available resources (i.e., savings). Depending on which program you qualify for, your Part B premiums could be paid, as well as other out-of-pocket costs such as deductibles, coinsurance and copayments.

Higher income, extra charge

If your modified adjusted gross income exceeds \$88,000 (\$176,000 for married couples), based on your most recent tax return, you will pay more for Parts B and D premiums in 2021 due to a so-called income-related monthly adjustment amount, or IRMAA. These income thresholds compare to 2020 amounts of \$87,000 for individuals and \$174,000 for married couples.

For Part B, this means shelling out anywhere from \$207.90 monthly to \$504.90 in 2021 premiums. For Part D prescription drug coverage, the additional amounts range from \$12.30 to \$77.10. That's on top of any premium you pay, whether through a standalone plan (whose premiums vary) or via an Advantage Plan.

Medicare Part B premium adjustments

File individual tax return	File joint tax return	File married & separate tax return	Monthly payment
\$88,000 or less	\$176,000 or less	\$88,000 or less	\$148.50
above \$88,000 up to \$111,000	above \$176,000 up to \$222,000	Not applicable	\$207.90
above \$111,000 up to \$138,000	above \$222,000 up to \$276,000	Not applicable	\$297.00
above \$138,000 up to \$165,000	above \$276,000 up to \$330,000	Not applicable	\$386.10
above \$165,000 and less than \$500,000	above \$330,000 and less than \$750,000	above \$88,000 and less than \$412,000	\$475.20
\$500,000 or above	\$750,000 and above	\$412,000 and above	\$504.90

SOURCE: Centers for Medicare & Medicaid Services



Events that qualify as justification for reducing or eliminating the IRMAAs include marriage, death of a spouse, divorce, loss of pension or the fact that you stopped working or reduced your hours.

“I have a client who was at the base level but just got hit with a large IRMAA since her 2019 income was significant,” Gavino said. “She’s appealing because now she has no income coming in.”

If your most recent tax return -- probably 2019 -- does not reflect an income drop this year and you’re scheduled to pay IRMAAs, you can ask the Social Security Administration to reconsider, said Elizabeth Gavino, founder of Lewin & Gavino and an independent broker and general agent for Medicare plans.

Medicare Part D premium adjustments

File individual tax return	File joint tax return	File married & separate tax retur..	You pay each month (in 2021)
\$88,000 or less	\$176,000 or less	\$88,000 or less	your plan premium
above \$88,000 up to \$111,000	above \$176,000 up to \$222,000	not applicable	\$12.30 + your plan premium
above \$111,000 up to \$138,000	above \$222,000 up to \$276,000	not applicable	\$31.80 + your plan premium
above \$138,000 up to \$165,000	above \$276,000 up to \$330,000	not applicable	\$51.20 + your plan premium
above \$165,000 and less than \$500,000	above \$330,000 and less than \$750,000	above \$88,000 and less than \$412,000	\$70.70 + your plan premium
\$500,000 or above	\$750,000 and above	\$412,000 and above	\$77.10 + your plan premium

SOURCE: Centers for Medicare & Medicaid Services



You'll also need to provide supporting documents to justify your appeal. Suitable proof may include a letter from your former employer (if you're no longer working) or something similar that shows evidence of reduced income. There's [a form you can fill out](#) or you can call the Social Security Administration for help.

Part D costs and help

Premiums for Part D prescription drug plans vary. The average for 2021 has slid to \$30.50 from about \$32.50 this year, according to the Centers for Medicare and Medicaid Services. However, if there's a deductible

with your coverage, it can be up to \$445 for 2021 (an increase from \$435 this year).

For people with high drug costs, be aware the amount that Part D enrollees pay out of pocket before qualifying for “catastrophic coverage” is \$6,550, up from \$6,350 in 2020. In that phase of coverage, your share of prescription costs drops markedly.

Keep in mind that there is no out-of-pocket maximum for Part D coverage, whether you have a standalone plan or get benefits through an Advantage Plan.

If you meet certain income and resource limits, you might qualify for [extra help](#) paying for premiums, deductibles and copays or coinsurance related to prescription costs. If you qualify for a Medicare Savings Program, getting assistance for Part D coverage is typically automatic.

There are other ways to save, as well. You can use generics when possible to help lower costs or check to see if your state has a [pharmaceutical assistance program](#) that’s available to Medicare beneficiaries, Gavino said.

Advantage Plan costs

While some Advantage Plans come with no monthly premium, the 2021 average is an estimated \$21, down from just under \$24 in 2020, according to Medicare officials. Either way, you must still pay your Part B

premium -- although depending where you live, you might find an Advantage Plan that provides a partial or full rebate of that monthly charge, said Roberts at Boomer Benefits.

Unlike basic Medicare, Advantage Plans come with annual out-of-pocket maximums.

For 2021, that amount can be as high as \$7,550 (up from \$6,700 this year) for in-network coverage before the plan pays 100% of covered services (excluding your prescription drug costs, which do not count toward that cap). The combined in- and out-of-network maximum for 2021 is \$11,300.

Generally speaking, the lower the premium, the more you'll pay in cost-sharing, experts say. And the specifics of that -- whether out-of-pocket limit, deductibles, copays or coinsurance -- differ from plan to plan. Sarah O'Brien, CNBC, www.cnbc.com, December 25, 2020.

5. RETIREES WITH A GUARANTEED INCOME ARE HAPPIER, LIVE LONGER:

Retirees who are surrounded by their family and friends -- and who also have a substantial check coming in every month for the rest of their lives -- are much happier, according to an articles [published in *Time*](#) and [The *Wall Street Journal*](#). They also [live longer](#), studies show.

That makes sense because the No. 1 worry of retirees is of running out

of money. Individuals who have a set income for life remove a great deal of stress from their lives. Retirees used to get enough money from Social Security and a traditional pension to cover their living expenses. But few employers now provide pensions, putting the onus of saving on the employee. Social Security payments equal only about 40% of the average wage earner's pre-retirement income.

Income That Lasts as Long as You Do

How can you get additional guaranteed income? Income annuities provide an often-overlooked solution. With income annuities, a lump sum or series of premium deposits is converted by an insurance company into an income stream that will begin either immediately, or in the case of deferred income annuities, at whatever future age you choose, typically starting no later than 85. Most annuities offer an option for guaranteed lifetime income. Many also let you name a joint income recipient so that your spouse can also receive a guaranteed lifetime income.

Research shows that annuities provide both psychic and financial benefits. Retired annuity owners feel more confident they'll be able to afford their preferred retirement lifestyles -- even if they live to age 90 or older -- than retirees who do not own an annuity, according to a [LIMRA Secure Retirement Institute study](#).

Some 73% of retirees who own an annuity believe they will be able to live the retirement lifestyle they want, compared with just 64% of retirees who don't. Nearly 7 in 10 retirees who own an annuity are more confident

their savings and investments will not run out if they live to age 90, compared with 57% of retirees who don't own an annuity, the 2016 LIMRA survey found.

An annuity offers a solution for creating long-term income security along with the happiness that goes along with that.

Don't Invest Unless It's Right for You

Annuities are powerful, but they're not for everyone. Don't invest unless you know it's the right product for you.

Before buying, ask yourself:

- How much income will I need in addition to Social Security and other sources to cover my expenses?
- Will I need supplemental income for anyone else besides myself?
- How long do I plan on leaving money in the annuity?
- When do I expect to need income payments?
- Will I be able to gain access to the funds from the annuity if I should need them?
- Do I have enough cash reserves to meet my expected needs?
- Am I using the funds to save for retirement, to generate a retirement income -- or both?

Once you've decided that an annuity is the right choice, then you can decide which type would be best. There are many different types of annuities available in the marketplace today, so knowing how you plan to use the product, will help you to make the best choice.

Many annuities offer a guaranteed interest rate and guaranteed principal. Most variable annuities, however, offer a chance at higher returns but don't guarantee earnings or principal. Immediate annuities begin paying out income within one year, while deferred annuities let you make deposits for many years before you start taking out an income stream.

Just like a car, there are lots of models that can get you from Point A to Point B, but the one that's best for your specific needs will depend on its particular features and benefits. An annuity can be bought with a lump-sum payment using cash or by rolling over funds from an IRA, 401(k) or another retirement account. You may also choose to make a series of regular, smaller deposits over time. Until you make withdrawals, you pay no tax on earnings.

A secure retirement depends on having enough dependable income for your lifetime to meet your basic needs and afford the extras that make life enjoyable. A lifetime income annuity can supplement Social Security and take the worry out of retirement because your monthly payments are guaranteed to keep coming even if you live past 100. Ken Nuss, *Kiplinger*, December 24, 2020.

6. CONGRESS PROVIDES RETIREMENT PLAN RELIEF:

Congress passed, and the President finally signed, the Consolidated Appropriations Act, 2021 (“**CAA**”). This bill, the fifth longest bill to be passed in the history of Congress, contains over seventy new tax

policies, extensions, refinements, and other tax-law clarifications. Within its over 5000 pages is The Taxpayer Certainty and Disaster Tax Relief Act (the "**TCDT Act**").

The TCDT Act provides that the 10% early withdrawal penalty does not apply to qualified disaster distributions; that special rules apply to retirement plan distributions used for qualified disaster area home purchases; and for increases in the limit for retirement plan loans made because of a disaster.

For normal distributions from a retirement plan prior to age 59 1/2, a 10% early withdrawal penalty generally applies. The TCDT Act provides that this penalty does not apply to any qualified disaster distribution. A "qualified disaster distribution" is any distribution made from an eligible retirement plan: (i) on or after the first day of the incident period of a qualified disaster and before the date which is 180 days after the date of the enactment of the TCDT Act, and (ii) to an individual whose principal place of residence was located in the qualified disaster area and who sustained an economic loss by reason of such qualified disaster. For purposes of the TCDT Act, COVID-19, by itself, does not make an area a "qualified disaster area."

An individual may not receive a qualified disaster distribution that exceeds the excess of \$100,000 over the aggregate amounts treated as qualified disaster distributions received by such individual for all prior tax years. If an individual has to include any part of the distribution in

income, they may do so over a three-year period.

In addition to the removal of the penalty for qualified disaster distributions, the TCDT Act also allows individual who received a distribution to purchase or build a home in a qualified disaster area but were unable to do so to repay the distribution to an eligible retirement plan. The eligible retirement plan can be a plan for which the individual is a beneficiary and to which a rollover contribution of such distribution could be made. This includes IRAs.

For the special repayment rule to apply, a “qualified distribution” means any distribution which was to be used to purchase or build a home in a qualified disaster area, but which was not used because of the qualified disaster. The distribution must have been received during within 180 days before the first day of the incident period and ending within 30 days after the expiration of the incident period.

Finally, the TCDT Act increased the amount that a qualified individual make withdraw as a plan loan on account of a disaster. In general, a loan from a retirement plan is limited to the lesser of \$50, 0000 or 50% of the participant’s vested account balance in the plan. The TCDT Act increased the maximum amount to the lesser of \$100,000 or 100% of the participant’s vested account balance. For purposes of this new rule, a “qualified individual” is an individual whose principal residence was located in the qualified disaster area who sustained an economic loss by reason of such qualified disaster.

In addition, the TCDT Act permits qualified individuals to delay the repayment of loans, including previously made loans, for one year if the payment due date occurs during the period beginning on the first day of the incident period and ending on the date which is 180 days after the last day of the period. Any subsequent repayments will be adjusted to reflect the delay and any interest that accrued during the delay.

As you can see, the CAA includes a great deal of new rules. Many of these rules are a benefit to impacted individuals but can create compliance headaches for plan sponsors. John Kirk, www.graydon.law, December 28, 2020.

7. 2021 ERISA PLAN COMPLIANCE CALENDAR:

Being a retirement plan sponsor involves juggling many tasks, one of the more important being to make sure your plan complies with all pertinent federal and local regulations. A compliance calendar keeps track of your company's required filings, their due date and related details so you can avoid incurring any fines or other penalties for late filings or missing information.

Click [here](#) to view and download a PDF schedule of some of the significant regulatory dates for 2021--it does not identify all compliance obligations or due dates. Additionally, the calendar assumes that a plan is being administered on a calendar year basis by an employer using a calendar fiscal year.

For the most part, the information for pension plans applies to single employer plans.

Participant Fee Disclosure Requirements

- Plan sponsors must furnish fee disclosures to participants on or before the date on which they or their beneficiary can first direct their investments in the plan and at least annually thereafter.
- Plan sponsors must, at least quarterly, furnish participants with a statement of account expenses and the services for which they apply.
- If any changes are made to fee information, plan sponsors must communicate the change to participants at least 30 days, but not more than 90 days, in advance of it.

Miscellaneous Requirements

- Defined contribution (DC) plan statements must be provided at least annually for participants who do not have the right to direct their investments, and at least quarterly for those who do have the right.
- A QDIA [qualified default investment alternative] notice for plans that choose to use a QDIA must be provided to participants 30 days prior to their first investment. Note: If the plan has immediate eligibility, participants must be given the notice as soon as administratively feasible.
- Notice to participants of a qualified automatic contribution

arrangement (QACA) or an eligible automatic contribution arrangement (EACA), and of a participant's ability to opt out, must be provided 30 days prior to eligibility and then annually. For plans with immediate eligibility, notice may be given on or as soon as feasible after eligibility.

- Defined benefit (DB) or money purchase pension (MPP) plans must provide the Pension Benefit Guaranty Corporation (PBGC) with a notice of failure to meet minimum funding standards within 60 days of a missed payment or denial of payment waiver.
- An explanation of a plan's pre-retirement survivor annuity must be provided to a participant between the first day of the plan year in which he reaches age 32 and the last day of plan year in which he reaches 35. If a participant is over 35 when hired, he should be given the explanation within one year of hire.
- An explanation of a joint and survivor annuity must be made to affected plan participants between 90 and 30 days before the annuity's starting date.

Jonathan Muroya, *PLANSPONSOR*, www.plansponsor.com, December 28, 2020.

8. FOURTEEN STATES THAT WON'T TAX YOUR PENSION:

Congratulations if you're one of the lucky few who still have a traditional pension (a.k.a., a defined benefit plan). But once you've retired, remember that Uncle Sam generally taxes payments from pensions as ordinary income.

Will your state tax your pension income, too? It depends on where you live. Most states tax at least a portion of income from private sector defined benefit plans. Your state might have a pension exclusion, but chances are it's limited based on your age and/or income. However, a handful of states don't tax pension income at all, no matter how old you are or how much money you have. Good for you if you retire in one of those states!

But, of course, just because a state doesn't tax your pension doesn't mean it won't tax some other form of income you're counting on in retirement. Alabama, for example, doesn't tax pensions or Social Security benefits, but it will tax distributions from a 401(k) plan. Bottom line: [Make sure you check out a state's overall tax environment for retirees](#) before relocating there for your golden years.

Click [here](#) to take a look at the 14 states that don't tax pension income (states are listed alphabetically). It could end up saving you thousands of dollars if you're thinking of moving to a new state when you retire. If you plan on retiring in Florida there's good news -- Florida is on the list. Following are some details:

Pensions: If you're looking for a warmer climate, there's always Florida. But there's more to like as a retiree than just the palm trees and sandy beaches. It's well known that the Sunshine State [doesn't have an income tax](#), so your pension won't be taxed there.

401(k)s and IRAs: Florida is good to seniors when it comes to 401(k)s and IRAs, too. There are no state taxes on distributions from these retirement savings plans.

Social Security Benefits: As you may have guessed, the Sunshine State doesn't tax Social Security benefits, either.

Income Tax Range: Not applicable (no income tax).

For more information, see the [Florida State Tax Guide for Retirees](#). Rocky Mengle, *Kiplinger*, December 8, 2020.

9. POLICE DEPARTMENTS FACE A FLOOD OF RETIREES:

As he wrapped up his demonstration on handcuffing and moved on to ground fighting, Sgt. Joel Olejnicak kept a watchful eye on the young students who could soon be his colleagues at the Duluth Police Department.

"These guys are going to be in high demand," said Olejnicak, gesturing to the group of 20-somethings in his defensive-tactics class at Fond du Lac Tribal and Community College.

Duluth Police Chief Mike Tusken expects to replace more than one-fifth of his 158 officers in the next three years due to retirements alone, a prospect that already has him worried about the department's future staffing.

"We are about to lose hundreds of years of experience," Tusken said.

"That's scary. But at the same time, it's an opportunity for people to come in with new ideas and perspectives that haven't been institutionalized in the police culture."

Police departments across the country are bracing for a wave of retirements as officers hired during a billion-dollar federal push to bolster agencies in the 1990s reach their 50s and are able to access pensions.

Their replacements may be harder to find these days. Potential officers might be deterred by the higher risk of catching COVID-19 on the job, and the death of George Floyd at the hands of Minneapolis police ignited demands to fundamentally change the profession.

"Any time there are negative, very public incidences of use of force involving police officers, it makes it difficult to recruit," said Wade Lamirande, program coordinator for the Fond du Lac college's law enforcement program, which expects to graduate about 30 students in the spring.

In three years, almost one-third of Minnesota's 10,961 active peace officers will be 50 or older, according to the state's Board of Peace Officer Standards and Training (POST). At that point, they are able to tap into retirement benefits, though there is a 5%-per-year pension reduction for those who leave before age 55.

Lamirande, Cloquet's former police chief, said he thinks more officers may be willing to take those cuts given the pandemic and heightened

criticism they face these days. For some, sticking around the extra five years may not be worth it.

"This is not an easy job," he said. "I'm hearing that, if they can make the numbers work, more officers are leaving at 51, 52."

HIRING EN MASSE

In 1994, President Bill Clinton signed the Violent Crime Control and Law Enforcement Act, which pledged to put 100,000 new police officers on U.S. streets by 2000 in an attempt to decrease crime rates that had skyrocketed.

The sweeping measure, the largest crime bill in U.S. history, also included a laundry list of new criminal provisions, as well as funding for prisons and prevention programs.

It has retroactively been accused of contributing to mass incarceration. The law was drafted by then-U.S. Sen. Joe Biden, who has since apologized for parts of the legislation while defending others.

That criticism, though, has not targeted the law's creation of the Community Oriented Police Services (COPS) office, which was authorized to provide \$8.8 billion in grants to local police agencies to cover 75% of the cost of new hires.

"It was a chance to change the way we worked," said Scott Lyons, Duluth's police chief for most of the 1990s.

Lyons hired about 30 officers with COPS grants, which allowed him to assign patrols to specific neighborhoods, where they were tasked with building relationships and earning trust. The goal was to decrease 911 calls by presenting these officers as resources for locals in need.

The COPS grants came with stipulations. City leaders had to show how they planned to retain the officers once three years of federal funding ran out.

The COPS office still exists, though with a smaller budget and many different grant programs. Biden's presidential campaign platform pledged to "reinvigorate" the program with a \$300 million investment.

But as Lyons described the "huge classes" of men and women that would take his department's entrance exam in the '90s, he mused that money might not be today's chiefs' biggest hurdle when it comes to recruiting.

"I know they have a harder time finding as many bodies as they did back in the day," he said. "Our government may have to step in and say: How are we going to incentivize people to want to be cops?"

COMPETING FOR CANDIDATES

Since preschool, 22-year-old Mona Zeidan has wanted to be a police officer in her hometown. She was raised in Duluth by Lebanese immigrants, and her father owned and operated local restaurants for more than 30 years.

Zeidan said she's drawn to the career by a desire to build relationships and help those in need.

"I think everybody's goal here is to make a difference, to be a part of something bigger," she said, waving to her peers in between drills at the Fond du Lac college gym. Law enforcement classes at the school are about half the size of what they were a decade ago.

Competition to hire this smaller pool of candidates is heating up as more officers reach the sunset of their police careers. A recent Fond du Lac student had a job offer before he passed his POST Board exam.

In Duluth, those applying to be an officer first take a written and oral test, the scores of which are combined to create a ranking of eligible candidates. Individuals at the top of the list who receive an initial interview must pass a background check (conducted by a Duluth investigator), various additional interviews and psychological, physical and medical assessments before they might receive an offer.

New hires go through Duluth's 12-week police academy and at least four months of field training before they are permitted to patrol on their own. They remain on probation for their first year on the force.

It's a rigorous process that takes the staffs' time and energy, Tusken admits, but he thinks it's worthwhile work. The Duluth chief often says he would rather leave a position vacant than hire the wrong person.

"We can teach people to a greater or lesser extent to be cops," Tusken

said. "But we can't teach character."

Duluth has previously lost officers to departments closer to the Twin Cities, where some agencies offer higher wages and deal with fewer crimes. Recruiting officers of color has at times been a particular challenge for the city of 86,000 that's 90% white.

Tusken involves members of the community in different parts of the interview process to try to garner feedback from a variety of perspectives while making hiring decisions.

Javien Versey, a Black student at the University of Minnesota Duluth who helped organize a protest against police brutality and racial injustice in the fall, said he would like to see more officers that look like him.

Whenever he has encountered police around town, they didn't strike up a casual conversation.

"It always feels like they're trying to discover something," he said. "It's more like they're establishing their authority over the community than a relationship with the community."

Of Duluth's existing officers, 8% are minorities and 13% are women. Duluth still has community police officers with designated zones today, though the system has adapted over time. More nonemergency responses are handled by the department's community-service officers, a cohort of nonlicensed staff that might be considering a career in law enforcement.

Tusken will look to that group as he prepares to replace his retiring colleagues, but he's also gearing up to triple his recruiting efforts across Minnesota and the country.

"What I'm hopeful for -- and excited about -- is hiring those good people who still have a passion to do this, even though it's going to be a tough job," he said. "Those are the people who will forge change in the future." Police 1, www.police1.com, November 27, 2020.

10. PUBLIC PENSION'S SHARE OF GOVERNMENT SPENDING MORE THAN DOUBLES IN 16 YEARS:

The percentage of all US state and local government spending used to fund pension benefits for employees more than doubled between 2002 and 2018, according to the National Association of State Retirement Administrators (NASRA).

NASRA said in a brief that the most recent US Census Bureau data shows that the share of state and local government spending used to fund pension benefits for state and local government workers jumped to 5.2% in 2018 from 2.3% in 2002.

Pension costs rose sharply after fiscal year 2002 after falling equally fast in the preceding years, according to NASRA, which said the increased rate of spending in 2018 was spurred by the largest annual increase in employer pension contributions since 2006. This included a \$6 billion one-time appropriation from the California legislature and an additional \$538 million from political subdivisions in California to reduce their

respective shares of unfunded liabilities of the California Public Employees' Retirement System (CalPERS).

The brief noted that while there was a sharp rise in pension costs as a percentage of state and local spending in aggregate, pension spending levels vary widely among states, ranging from just over 2% in Wisconsin and Wyoming to more than 10% in Connecticut and Illinois.

NASRA said the variation in pension spending among states can be attributed to factors such as differences in pension benefit levels, variations in the size of unfunded pension liabilities, the level of commitment by the state and its local government plan sponsors to make required pension contributions, the portion of the state's population that lives in an urban area, and the fiscal condition of government plan sponsors. NASRA said an analysis of state and local spending on pensions and the percentage of population residing in metropolitan areas within each state suggests that states with larger urban populations are more likely to experience higher costs for public pension benefits than states with smaller urban populations.

According to NASRA, state and local governments contributed, in aggregate, approximately \$168 billion to pension funds in fiscal year 2019, which it said was the smallest annual increase in employer pension contributions since a decline in 2005. The reduced contributions are projected to lower the percentage of state and local direct general spending on public pensions to 5.05%.

NASRA also said that it's important to consider the fiscal status of

governments that sponsor public pension plans when measuring the percentage of state spending dedicated to pensions. It said that fiscal year 2018 was the fourth straight year state and local spending growth was above 4% following five straight years of growth below 3%. NASRA added that states with greater increased spending may be better able to absorb higher pension contributions than states with weaker or negative spending.

Additionally, the brief said that in fiscal year 2019, state and local government contributions to statewide retirement systems accounted for 78% of total pension contributions, with the remaining 22% belonging to locally administered systems. As a percentage of total spending, cities spent approximately 31% more than states on pensions over the 30-year period from 1988 to 2017. Michael Katz, Chief Investment Officer, www.ai-cio.com, December 23, 2020.

11. HOW WILL YOUR PENSION SOMEDAY AFFECT SOCIAL SECURITY BENEFITS?:

If you work for the federal, state, or local government, you are likely eligible for a pension. You may also be eligible if you work for a public university or other agency. If you're one of the lucky few who work for a private employer who offers a defined-benefit pension (a truly endangered species today), then you should probably stay in that job for as long as they'll have you.

Receiving a pension, however, may affect your Social Security benefits, depending on the type of pension you have, and how long you worked

for a public institution.

Will your pension affect your Social Security benefits? And what if you switch between private and public sectors your whole career? Will you end up with an insufficient pension and reduced Social Security benefits?

Let's walk you through it. There's no one answer, as it all depends on the type of pension you have and the rules of your particular state or institution.

Corporate pension plans

Let's get the easy one over with first. Corporate pension plans do not affect whether or not you will get Social Security benefits, or the amount that those benefits will be. Since the pensions are accrued through, and paid by, private entities, they do not affect your benefits. It's a win-win for your future financial health.

Corporate pension plans *can*, however, affect how much of your Social Security benefits will be taxable in retirement. We'll get to that later.

Federal government pensions

Participation in a pension plan while employed by the federal government can affect your Social Security benefits. In fact, you may not be eligible for Social Security benefits at all.

At one time, federal employees were covered under the Civil Service Retirement System (CSRS), and, as a result, they did not participate in the Social Security program. That means that they did not make

payments (via payroll tax) into the system and the Social Security Administration has no records relating to that income. As such, if you are still participating in the CSRS, you will not be eligible for Social Security benefits; however, you will be eligible for Medicare participation.

In 1984, the federal government introduced a second retirement system, known as the Federal Employees Retirement System, or FERS. If you began working for the federal government from 1984 on, you're automatically part of the FERS system, and not CSRS. Employment under the FERS system *is* covered by Social Security, so that when you retire you will receive both a federal pension and a Social Security benefit. You pay into the system via payroll taxes, as the rest of us do.

This will also be true for employees originally covered by the CSRS system who converted to the FERS system. And of course, participation in either system means that you are automatically eligible for Medicare.

State and local government pensions

Like federal government employment, Social Security eligibility also varies when it comes to employment with state and local governments. This also includes agencies, school systems, and state sponsored colleges and universities.

Some state and local governments do not participate in the Social Security program. Social Security taxes will not be withheld from your pay, and you will not receive benefits upon retirement. In this situation, your retirement income will be provided by the pension plan established

by your employer. However, since Medicare wages are withheld even if the plan does not include participation in Social Security, you will be eligible for Medicare benefits.

Often, if this is the case, your employer (for instance, The Ohio State University) will require that employees contribute at least 10% of every paycheck to the pension fund. Unlike 401(k)s, where employees choose their own level of involvement (and often underfund their own retirement) this allows the pension program to plan and provide for its beneficiaries. (When you consider that public employees are not paying their half of the payroll tax--6.2%--the 10% requirement works out to roughly a 3.8% contribution toward their retirement.)

Other state and local governments provide pensions, but also participate in the Social Security program. If you work for such an agency, then you will receive benefits for both your state or local pension, and Social Security.

With both federal pensions and state and local government pensions, the Social Security question is either/or. That is, either you will get Social Security benefits, or you won't. As a general rule, your Social Security benefits are not reduced by your participation in a federal, state, or local pension plan.

What if you're not covered by Social Security?

In many situations, the benefits that you will receive under a government pension will be equal—or even superior—to Social Security benefits with

an equivalent employment and earnings record. But if you are concerned by the absence of Social Security benefits, you should consider the following to help secure your retirement:

- Be sure that you understand the terms of your government pension
- Pay close attention to the projected monthly benefit you can expect to receive in retirement
- Maximize the amount of the pension by working the required number of years to get the highest benefit
- If a 403(b) or 457 plan is available, be sure to participate in it, and make the highest contributions that you can
- Add participation in a traditional or Roth IRA if necessary

Job hopping between public and private sectors requires more math

If you follow these steps you should have a secure retirement. But what happens if you switch to the private sector before you qualify for your full pension?

If you work for a state or local government, [it all depends upon the vesting requirements](#) of the pension plan. Once you are vested, you will be entitled to benefits, or a rollover of the plan assets. You'll have to check with your pension plan administrator to determine what the rules are.

For an example, [OSU employees are entitled to pension benefits](#) once they've worked for the university for five years. Their monthly benefit, of course, would be much smaller than one received by an employee who

completed the full 25-year term. But they would still receive it. If not vested, they can take their contributions (and any earnings) and roll them over into an IRA or a new employer's 401(k).

For federal employees, there are [specific rules under the FERS program](#). You are vested in the plan after five years, after which you have the choice to either take a refund of your contributions, plus interest, or leave the money in the plan, and sign up for a deferred annuity when you get close to retirement.

If you are not vested in the plan, you can either take a refund of your contributions, plus interest, or you can leave the money in the plan if you believe you may return to federal government employment. You can also request a refund at a later date if you do not return to the federal government.

If you do leave government employment, whether you are vested in a government pension plan or not, you will automatically be covered under the Social Security system if you enter employment in the private sector.

It's possible, however, that you may have missed out on several years of contributions (or "credits") into the Social Security system, which will reduce your benefit in retirement. (Whether it's reduced by more or less than what you receive from your pension—if you vested—will depend on a number of factors. If, for instance, your salary went up significantly when you moved to the private sector, then you may make up the shortfall quickly.)

One of the limitations in the private sector is that few employers offer traditional defined-benefit pension plans, the way governments do. If that's the case, then you'll have to participate in a 401(k) plan, if it is available, or a traditional or Roth IRA. Failing that, you will have to be conscientious about saving money in taxable non-retirement accounts, such as brokerage accounts and mutual funds.

Pensions can affect how much of your Social Security is taxable

Even if pensions don't affect the amount of Social Security benefits you will receive, they do have an impact when it comes to income taxes on those benefits.

For federal income tax purposes, the taxability of Social Security benefits is determined by your income level. According to the [Social Security Administration](#), benefits are taxable as follows:

- If you file as “single” on your federal income tax return and your **combined income** is:
 - Between \$25,000 and \$34,000, you may have to pay income tax on up to 50% of your Social Security benefits
 - More than \$34,000, up to 85% of your Social Security benefits may be taxable.

- If you file as married filing jointly, and you and your spouse have a **combined income** of:
 - Between \$32,000 and \$44,000, you may have to pay income tax on up to 50% of your Social Security benefits

- More than \$44,000, up to 85% of your Social Security benefits may be taxable.
- If you are married and file a separate return, you'll probably pay taxes on your benefits.

There are two bits of good news here. First, your Social Security benefits will not be taxable if your combined income is below the minimum numbers above. And second, the maximum amount of your Social Security benefits that will be taxable under the worst case scenario is 85%.

Now I've bolded the term “**combined income**,” and there's a specific reason for that. In order to determine the amount of your Social Security benefits that will be taxable, you have to calculate this number.

This how you calculate your “combined income”:

- Your adjusted gross income (not including your Social Security benefits) + nontaxable interest (like municipal bond interest) + *half* of your Social Security benefits
- Once you have that number, you can compare it to the income numbers above, to determine what percentage of your Social Security benefits will be taxable.
- Since pension income will represent part of your adjusted gross income, it will have an impact on how much of your Social Security benefits are taxable.

Summary

If you work in a job that offers a pension, and you stay in that job or that sector your whole career, then your pension will be easy to calculate. Depending on the laws of your state, or the time you started your career, you may or may not be eligible for Social Security benefits. But if you do receive Social Security benefits, those benefits will not be affected by whatever pension you receive.

If you jump between the public and private sectors your entire career, then your retirement benefits may be slightly more work to calculate, but they will not be any more complicated. Regardless, you should always aim to make your own plans for retirement--via either a traditional or a Roth IRA. Kevin Mercadante, Money Under 30, www.moneyunder30.com, Modified date: November 11, 2020.

12. IRS TOPIC NO. 410 PENSIONS AND ANNUITIES:

If you receive retirement benefits in the form of pension or annuity payments from a qualified employer retirement plan, all or some portion of the amounts you receive may be taxable. This topic doesn't cover the taxation of social security and equivalent railroad retirement benefits. For information about tax on those benefits, refer to [Topic No. 423](#) and [Are My Social Security or Railroad Retirement Tier I Benefits Taxable?](#)

Fully Taxable Payments

The pension or annuity payments that you receive are fully taxable if you have no investment in the contract (sometimes referred to as "cost" or

"basis") due to any of the following situations:

- You didn't contribute anything or aren't considered to have contributed anything for your pension or annuity
- Your employer didn't withhold contributions from your salary, or
- You received all of your contributions (your investment in the contract) tax-free in prior years

Partially Taxable Payments

If you contributed after-tax dollars to your pension or annuity, your pension payments are partially taxable. You won't pay tax on the part of the payment that represents a return of the after-tax amount you paid. This amount is your investment in the contract and includes the amounts your employer contributed that were taxable to you when contributed. Taxpayers figure the tax on partly taxable pensions by using either the General Rule or the Simplified Method. For more information on the General Rule and Simplified Method, refer to [Topic No. 411](#). If the starting date of your pension or annuity payments is after November 18, 1996, you generally must use the Simplified Method to determine how much of your annuity payment is taxable and how much is tax-free.

Additional 10% Tax on Early Distributions

If you receive pension or annuity payments before age 59½, you may be subject to an additional 10% tax on early distributions, unless the distribution qualifies for an [exception](#). The additional tax doesn't apply to any part of a distribution that's tax-free or to any of the following types of

distributions:

- Distributions made as a part of a series of substantially equal periodic payments that begins after your separation from service
- Distributions made because you're totally and permanently disabled
- Distributions made on or after the death of the plan participant or contract holder, and
- Distributions made after your separation from service and in or after the year you reached age 55

For other exceptions to the additional 10% tax, refer to [Publication 575, Pension and Annuity Income](#). For relief for taxpayers affected by COVID-19 who take distributions or loans from retirement plans, refer to [Notice 2020-50 PDF](#) and [IR-2020-124](#).

Survivor or Beneficiary

If you're a survivor or beneficiary of a pension plan participant or annuitant, refer to [Publication 575](#) for rules relating to income inclusion.

Tax Withholding and Estimated Tax Payments

The taxable part of your pension or annuity payments is generally subject to federal income tax withholding.

You may be able to choose not to have income tax withheld from your pension or annuity payments (unless they're eligible rollover distributions) or may want to specify how much tax is withheld. If so, provide the

payer [Form W-4P, Withholding Certificate for Pension or Annuity Payments PDF](#) or a similar form provided by the payer along with your social security number (SSN). If you're a U.S. citizen or resident alien, you must provide the payer with a home address in the United States (or its possessions) to be able to choose to have no tax withheld. Payers generally figure the withholding from periodic payments of a pension or annuity the same way as for salaries and wages. If you don't submit the Form W-4P withholding certificate, the payer must withhold tax as if you were married and claiming three withholding allowances. Even if you submit a [Form W-4P PDF](#) and elect a lower amount, if you don't provide the payer with your correct SSN, tax will be withheld as if you were single and claiming no withholding allowances.

If you pay your taxes through withholding and the withheld tax isn't enough, you may also need to make estimated tax payments to ensure you don't underpay taxes during the tax year. For more information on increasing withholding tax, making [estimated tax payments](#), and the consequences of not withholding the proper amount of tax, refer to [Publication 505, Tax Withholding and Estimated Tax](#).

Other Situations

Special rules apply to certain nonperiodic payments from qualified retirement plans. For information on the special tax treatment of lump-sum distributions, refer to [Topic No. 412](#). If you receive an eligible rollover distribution, the payer must withhold 20% of it, even if you intend to roll it over later. You can avoid this withholding by choosing the direct

rollover option. A distribution sent to you in the form of a check payable to the receiving plan or IRA isn't subject to withholding. For more information on rollovers, refer to [Topic No. 413](#) and visit [Do I Need to Report the Transfer or Rollover of an IRA or Retirement Plan on My Tax Return?](#)

Additional Information

For more information, refer to [Publication 575](#) and [Is My Pension or Annuity Payment Taxable?](#) IRS, Tax Topic 410, www.irs.gov.

13. WRAPPING UP 2020 WITH MORE CAR WRAP SCAMS:

We just heard from more companies that scammers are using their names to trick people into a [car wrap scam](#). This time, scammers are saying they're Marlboro or Purell (but they're not really).

The gist of the scam is this: scammers send emails and post to social media and job boards with messages like "GET PAID TO DRIVE." They offer to pay you up to \$700 a week if you'll drive around with your car (or truck or bike) wrapped to advertise a well-known product. But they're not really affiliated with the brand. They just want your money.

If you message them back, they'll send you a check to deposit into your bank account. **Then** they'll say to use some of that money to pay their "decal agent" to put the ads on your car. They'll tell you to pay by money order, Walmart money services, or by making a cash deposit directly into the decal agent's bank account -- all ways that are hard to cancel or get

your money back.

So what's really going on? Well, the "decal agent" is really the scammer. And that check you just deposited? That was fake -- which means the money you sent is coming out of your own pocket. So, if you deposited a \$1,500 check and sent \$500 to the "decal agent," you're out \$500 of your own money. (And you don't get to keep that \$1,000, either.)

Another thing: [an FTC analysis published earlier this year](#) showed that [fake check scams](#) hit 20- and 30-year-olds hard in the wallet. People reported a median loss in 2019 of \$1,988.

Spotted a scam like this? We want to hear about it. Let us know at ReportFraud.ftc.gov. Ari Lazarus, Consumer Education Specialist, FTC, www.ftc.gov, December 29, 2020.

14. FOR THOSE WHO LOVE WORDS:

"Nauseated" vs. "Nauseous": Which One To Use When You're Feeling Sick. Click [here](#) to learn.

15. INSPIRATIONAL THOUGHT FOR TODAY AND THE COMING YEAR:

"The best is yet to come." -Frank Sinatra

16. TODAY IN HISTORY:

On this day in 1946, US President Harry Truman officially proclaims end

of WW II.

**17. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED
RETIREMENT BENEFIT.**

