# The Poindexter Group

Financial planning

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It's hard to believe we're beginning the second month of the new year. February, unfortunately, is the ideal time to do the dreaded chore of getting your tax records in order.

But there may be a silver lining. As you pull everything together, ask yourself, "Does The Poindexter Group have a clear understanding of my financial situation?" The better we understand your financial situation, the more effectively we can help you.

And the best way to gain this understanding is through the financial planning process. Please reach out to me or Suzanne Rismiller if you have new information to share, questions or concerns.

Below are a few articles that may be useful, including one that lists IRS adjustments for 2021 contribution limits for transfer taxes, IRAs and employer retirement plans.

One more thought: If you or someone you know is going through a major life change and is seeking an objective resource or sounding board, we stand ready to help in any way we can.

Warm wishes,

David

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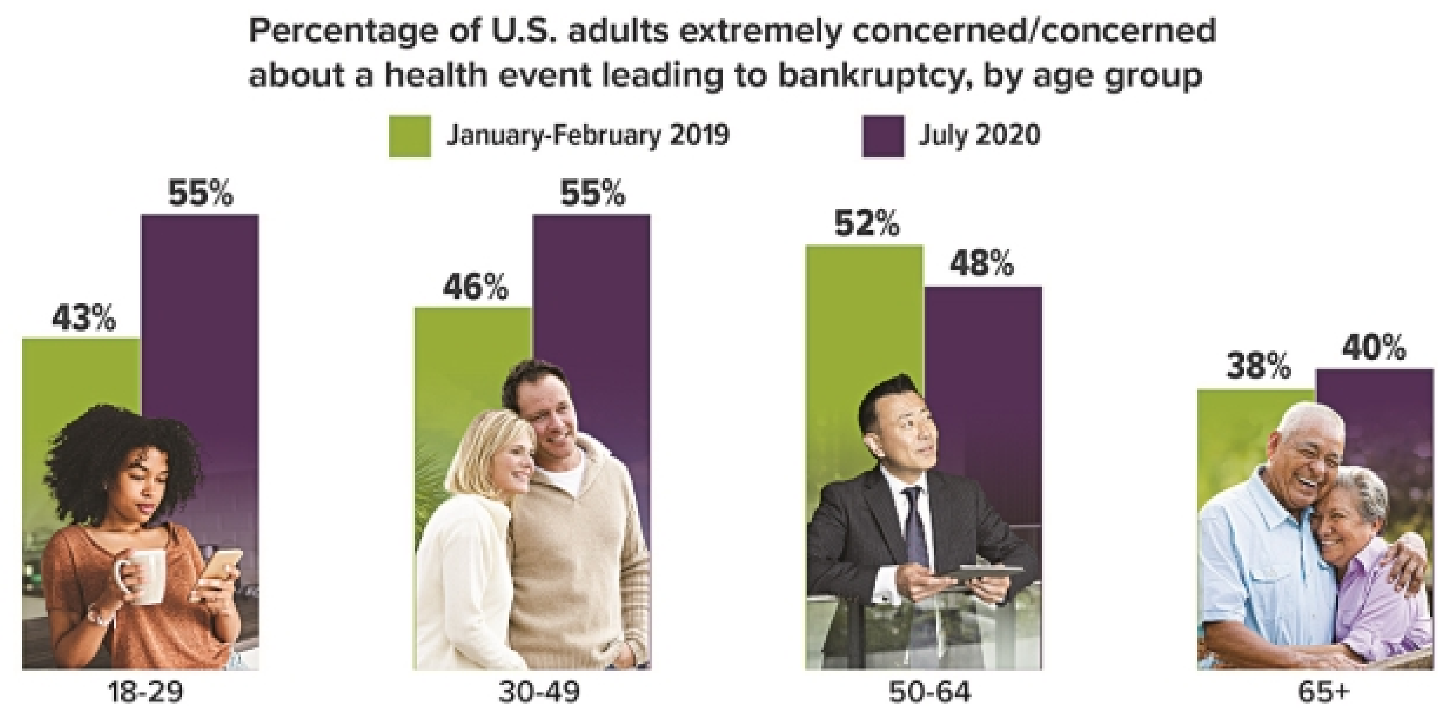
# Half of U.S. Adults Fear Health-Related Bankruptcy

In July 2020, half of U.S. adults were concerned that a major health event in their household could lead to bankruptcy, compared with 45% in early 2019. Health-related bankruptcy fears increased significantly for younger people.




Source: Gallup, 2020

# Key Retirement and Tax Numbers for 2021

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2021.

## Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2021 is $15,000, the same as in 2020.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2021 is $11,700,000, up from $11,580,000 in 2020.

## Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2021, the standard deduction is:

- $12,550 (up from $12,400 in 2020) for single filers or married individuals filing separate returns
- $25,100 (up from $24,800 in 2020) for married individuals filing joint returns
- $18,800 (up from $18,650 in 2020) for heads of households

The additional standard deduction amount for the blind or aged (age 65 or older) in 2021 is:

- $1,700 (up from $1,650 in 2020) for single filers and heads of households
- $1,350 (up from $1,300 in 2020) for all other filing statuses

Special rules apply if you can be claimed as a dependent by another taxpayer.

## IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2021 (the same as in 2020), with individuals age 50 and older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges. (The limit on nondeductible contributions to a traditional IRA is not subject to phase-out based on MAGI.)

### MAGI Ranges: Contributions to a Roth IRA

| | 2020 | 2021 |
|---|---|---|
| Single/Head of household | $124,000–$139,000 | $125,000–$140,000 |
| Married filing jointly | $196,000–$206,000 | $198,000–$208,000 |
| Married filing seperately | $0–$10,000 | $0–$10,000 |

### MAGI Ranges: Contributions to a Traditional IRA

| | 2020 | 2021 |
|---|---|---|
| Single/Head of household | $65,000–$75,000 | $66,000–$76,000 |
| Married filing jointly | $104,000–$124,000 | $105,000–$125,000 |

The 2021 phaseout range is $198,000–$208,000 (up from $196,000–$206,000 in 2020) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a plan.

## Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2021 (the same as in 2020); employees age 50 and older can defer up to an additional $6,500 in 2021 (the same as in 2020).
- Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2021 (the same as in 2020), and employees age 50 and older can defer up to an additional $3,000 in 2021 (the same as in 2020).

## Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,200 in 2021 (the same as in 2020) is taxed using the parents' tax rates.

# COVID-19 and the Importance of Disability Income Insurance

The prospect of being unable to work due to an illness or injury may seem remote to many of us, particularly during our younger working years. However, the COVID-19 pandemic has increased the chances of getting sick and not being able to work for an extended period, making disability income insurance (DI) more important than ever, regardless of your age.

Health insurance may pay for some of the medical expenses related to your illness, but it won't cover your lost wages if you can't work. And while many employers offer some form of sick leave, it may not last long enough to cover the length of time you can't work. Disability income insurance pays a portion of your salary if you are unable to work due to an injury or illness. But will DI cover you if you can't work due to COVID-19?

## Will Disability Insurance Pay for COVID-19-Related Disabilities?

Generally, disability income insurance provides income benefits if you are unable to work for a medical reason. Before paying a claim for benefits, most DI policies require that you are unable to work because of a diagnosed medical condition, such as COVID-19, that has been verified by a doctor or other qualified medical professional.

If you are ill, or test positive for the virus, and are unable to work due to your illness or a medical quarantine (i.e., you can't work remotely), you should qualify for DI benefits. On the other hand, even if you tested positive and have a mild illness or are under a medical quarantine, but you have the ability to work, (i.e., you can work remotely), then you probably won't qualify for DI benefits. It is important to note that social quarantine (e.g., a government-mandated stay-at-home order) is not a medical quarantine and will not qualify for DI benefits. Likewise, if your employer shuts down temporarily or permanently due to the virus, you will not qualify for DI benefits.

## Short-Term Disability Insurance vs. Long-Term Disability Insurance

There are two types of disability income insurance, short term and long term. While the provisions may vary by insurer, short-term DI policies usually have short elimination, or waiting periods (3-14 days) following the onset of your disability before the insurance pays. Although some policies offer benefits for up to two years, many contracts pay benefits for six months to one year.

Long-term DI policies have a longer elimination period (typically 90 days), but may pay benefits up to age 65, although, in certain instances long-term DI may pay lifetime benefits. Disability policies typically pay benefits that equal 50% to 70% of your gross monthly base salary. A monthly maximum benefit may apply.

For disability protection related to COVID-19, short-term DI should be enough if you miss work due to a medical quarantine. However, if you're unable to work for a longer time due to complications from the virus, long-term DI would be needed.

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace. Guarantees are subject to the financial strength and claims-paying ability of the issuer.

## Where Can You Get Disability Insurance?

In general, access to disability benefits can come from private insurance (individual or group DI policies purchased from an insurance company) or government insurance (social insurance provided through federal or state governments).

Private disability insurance refers to disability insurance that you purchase through an insurance company. Many types of private disability insurance exist, including individual DI policies, group policies, group association policies, and riders attached to life insurance policies.

Private disability policies usually offer more comprehensive benefits to insured individuals than social insurance. Individually owned disability income policies may offer the most coverage (at a greater cost), followed by group policies offered by an employer or association. Check with your employer or professional association to see if you are eligible to participate in a group plan. Even if your employer offers disability insurance, it's probably short-term DI and may not provide benefits if a disability due to COVID-19 lasts for more than three months. For disabilities that last longer or are permanent, you'll need a long-term DI policy to provide benefits while you can't work.

# Tips to Help Control Your Finances During the Pandemic

The coronavirus pandemic has strained the finances of many U.S. households. In an August 2020 survey, 25% of adults said someone in their household had experienced the loss of a job due to the outbreak. Even among those who did not lose a job, 32% said someone in their household has had to reduce hours or take a pay cut due to the economic fallout from the pandemic.[1] During these times of financial turmoil and stress, it's more important than ever to take control of your financial situation. Here are some tips to get started.

**1. Make sure your budget is on track.** A solid budget is the centerpiece of any good financial plan because it will give you a clear picture of how much money is coming in and how much is going out. Hopefully, you've been able to stay the course during the pandemic and your budget is still on track. If you've experienced a loss or reduction in income, you may have to cut back on discretionary spending or look for ways to lower your fixed costs. Budgeting websites and smartphone apps can help you analyze your saving and spending patterns.

**2. Maintain healthy spending habits.** During the height of the pandemic, your spending habits may have changed dramatically. With restaurants closed, vacations postponed, and events canceled, many Americans found themselves spending less. If you were fortunate enough to save money during the pandemic, keep up the good work. If you spent more than you would have liked (e.g., takeout, online shopping), try to cut back and save what you can. Even small amounts can add up over time.

**3. Check your emergency fund.** If the pandemic has taught us anything financially, it is the importance of having an emergency fund. If you've had to dip into your cash reserve at some point over the past year to cover expenses, you'll want to work on building it back up. Ideally, you should have at least three to six months of living expenses in your cash reserve. A good way to accumulate emergency funds is to earmark a percentage of your paycheck each pay period. When you reach your goal, you may still want to keep adding money — the more you can save, the better off you could be in the long run.

**4. Deal with your debt.** It is always important to stay on top of your debt situation and pay down debt from student loans, a mortgage, and/or credit cards as quickly as you can. If the financial impact of the pandemic has made it difficult to manage your debt, contact your lenders to see if they offer COVID-related financial assistance. Many may be willing to work with you by waiving interest and certain fees or allowing you to delay, adjust, or skip some payments.

1) Pew Research Center, 2020