The Monthly Mu$e

Ideas and concepts to consider

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Greetings,

Happy New Year! We hope that 2021 has been a successful year for you and we appreciate the time you have spent achieving your goals with us. We look forward to working together in the new year! As always, give the office a call if you have any questions or would like to schedule a review appointment.

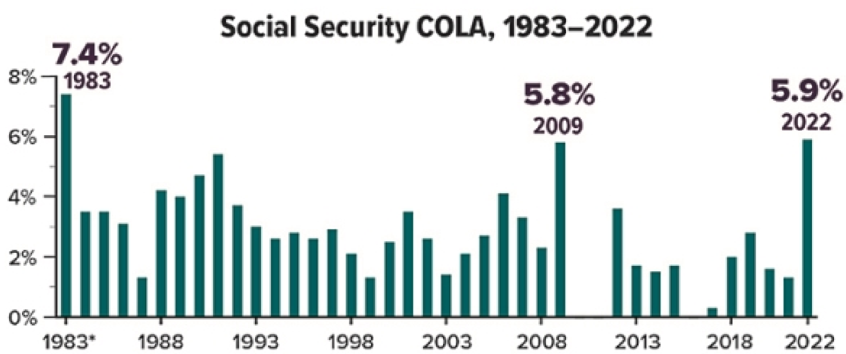
Sincerely,

Ross and Rylan

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.



There was no COLA in 2010, 2011, and 2016.
*The 1983 COLA was applied to benefits payable from July 1982 to December 1983.

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

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.

Building Blocks for Financing College with Less Debt

Financing a college education with the least amount of debt involves putting together a variety of resources in the most favorable way for your family. It requires planning, savings discipline, an understanding of financial aid, smart college research, and good decision making at college time.

Your College Fund

Your savings are the cornerstone of any successful college financing plan. It's helpful to think of your college savings as a down payment on the full cost, similar to a down payment on a home. Then at college time you can supplement your savings with other available resources.

Setting aside money for college over many years takes discipline, and in many cases sacrifice, including lifestyle changes. Every family's situation is different. But if you save regularly over time, you might be surprised at how much you could accumulate in your college fund.

A College Fund Takes Shape

Monthly Investment	5 Years	10 Years	15 Years
$100	$6,977	$16,388	$29,082
$300	$20,931	$49,164	$87,246
$500	$34,885	$81,940	$145,409

Assumes a 6% average annual after-tax return. This hypothetical example of mathematical principles is used for illustrative purposes only and does not reflect the actual performance of any investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investing strategy will be successful.

Financial Aid

Financial aid is the next piece of the puzzle. It's a broad term that can mean a lot of things, with concepts that are often used interchangeably. At its core, financial aid is money to help pay for college: loans, grants, scholarships, and work study. Your overall goal is to get the most amount of grants and scholarships (grant aid) and the least amount of loans.

Colleges are the largest source of grant aid, with annual need-based and/or merit-based grant awards that can be in the tens of thousands of dollars. By contrast, the federal government's two main grants, the Pell Grant and the Supplemental Educational Opportunity Grant, are generally smaller amounts and reserved for students with the greatest financial need.

To help find colleges with the most generous grant aid, use a net price calculator, which is available on every college website. A net price calculator provides an estimate of how much grant aid a student might expect based on his or her financial information and academic profile. By completing a net price calculator for several colleges, you can compare what your out-of-pocket cost (net price) might be at different schools and rank colleges based on affordability.

The federal government's main contribution to the world of financial aid is in the form of student loans. All students, regardless of financial need, are eligible for federal student loans.

Additional Funding Sources

Other potential resources at college time might help reduce the overall amount you'll need to borrow: what you can contribute from current income during the college years; your child's earnings from a school or summer job; education tax credits, which could be worth up to $2,500 per year; financial help from grandparents or other relatives; and scholarships from civic, private, or nonprofit groups.

On the cost-cutting side, your child might consider graduating in less than four years; attending community college for two years and then transferring to a four-year college; becoming a resident assistant to get free or discounted room and board; living at home for a semester or two; exploring all in-state public college options; and deferring enrollment for a year to earn money and take advantage of any employer educational assistance.

After taking everything into account — the amount of your college fund, the grant aid your child might receive at specific colleges, the amount of money you and your child can contribute from current income during the college years, and the availability of other resources and cost-cutting measures — you can determine how much borrowing would be required for specific colleges and make an informed choice.

Borrowing money to pay for college can easily spiral out of control. Make sure your child understands what the monthly payment will be for different loan amounts over a 10-year repayment term. If the numbers look daunting, don't be afraid to say "no" to certain colleges. Most teenagers are not financially experienced enough to fully understand the negative consequences of extreme borrowing, so it's up to parents to help eliminate options that aren't financially viable.

How to Correct an Error on Your Credit Report

According to the Consumer Financial Protection Bureau (CFPB), credit report errors more than doubled during the coronavirus pandemic. In addition, the CFPB found that many pandemic protections which were designed to help consumers, such as loan forbearance periods on federal student loans and federally backed mortgages, ended up negatively impacting their credit reports as a result of complications such as processing delays and suspended payments being marked incorrectly.[1] This is a significant issue for many consumers, because credit report errors may negatively impact creditworthiness and potentially lead to negative financial consequences, such as being offered higher mortgage interest rates or being turned down for a job or an apartment lease.

Fortunately, changes made during the pandemic have made it easier to stay on top of your credit report. Under new expanded rules, you are now eligible to obtain a free weekly credit report from each of the three nationwide credit reporting bureaus until April 20, 2022. To obtain free reports, go to AnnualCreditReport.com where you can fill out an online form, choose the reports you want, and, after answering some security questions, review your reports online.

If you find an error on your credit report, there are steps you can take to correct it. First, contact the credit reporting agency to dispute the error. You can do this online or by mail. Explain why you are disputing the information and be sure to include documentation that supports your dispute. The credit reporting bureau generally has 30 to 45 days to investigate the disputed information. Once the investigation is complete, the credit reporting bureau must provide you with written results. If the credit reporting bureau confirms that your credit report does contain errors, the information on your report must be removed or corrected.

If you do not agree with the credit bureau's investigation results, you can ask that a statement of the dispute be included in your file and in future reports. You can also contact the creditor that reported the information to the credit reporting bureau and dispute it with the creditor directly. If the creditor finds that the information is inaccurate, it must notify each credit bureau to which it has reported the information so the information can be updated or deleted. If you believe the error is the result of identity theft, you may need to take additional steps to resolve the issue, such as placing a fraud alert or security freeze on your credit report.

Keep in mind that correcting a credit report error can often be a time-consuming and emotionally draining process. If at any time you believe that your credit reporting rights are being violated, you can file a complaint with the Consumer Financial Protection Bureau at consumerfinance.gov.

1) Consumer Financial Protection Bureau, 2021