Health & Retirement Services of Illinois
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OUR NEWS LETTER HRSI

Medicare Drug Plan Data Reported By Medicare Insurance Association

Some 48 million Americans are enrolled in Medicare prescription drug plans according to the latest data reported by the American Association for Medicare Supplement Insurance.

“Prescription drug plan coverage is one of the most important benefits valued by seniors,” states Jesse Slome, director of the Medicare advocacy organization. “Individuals have enormous choice today and selecting the right prescription drug plan coverage can be significant money saver.”

According to the 2022 Medicare insurance drug plan data posted by the Association, about half of Medicare beneficiaries with drug plan coverage are enrolled in stand-alone plans. “The other half are enrolled in a Medicare Advantage plan that provides prescription drug coverage,” Slome notes.

The average Medicare beneficiary has more choices when it comes to drug plans included with Medicare Advantage. “In 2022, the average individual has some 31 different plans available, up from 15 in 2015,” Slome shares. The same is not true when it comes to stand-alone Medicare prescription drug plans. The number of available plans in 2022 is 23 a nominal decrease from prior years partly due to plan consolidations suggests Slome.

“Seniors have the opportunity to compare and find the best Medicare drug plan coverage each year,” Slome advises.

In Our Newsletter

What Do Rising Rates Mean for Stock Investors?

Last week, U.S. Treasury bond yields, climbed back to their pre-pandemic levels. In Europe, German 10-year yields climbed to near 0%, touching their highest level since May 2019. What are the implications of rising global yields for stock prices? Increasing yields could help lift stocks and may even signal outperformance of cyclical European stocks and value stocks.

The end of an era?

Interest rates and stocks have moved together for the past 20 years, but this hasn't always been the case. In the prior multi-decade period, from the 1970s into the 1990s, when interest rates went up, stocks generally fell.

Changing relationship between stock prices and bond yields

The relationship between bond yields and stocks prices has changed over time. So, how can we tell if the current era may be ending? Well, the ten-year U.S. Treasury yield remains well below 5% and historically, that has been the threshold for a change in the relationship.

- Same direction - When rates were below 5%, both in the 1960s and since 2000, stock prices and bond yields tended to move in sync with each other (a positive correlation).
- Opposite directions -When rates were above 5% in the 1970-90s, stock prices and bond yields tended to move in opposite directions (a negative correlation).

The only exception to this was the period around the 1987 stock market crash, when stocks and yields moved together. However, these circumstances were unique; the market decline was not precipitated by an economic recession-driven drop in bond yields.

Why does 5% matter?

The different eras may be the result of the changing relationship between yields and the economic outlook. Stock returns typically move in sync with the outlook for economic growth because economic growth is reflected in corporate earnings, which are one of the most important drivers of stock market performance. However, bond yields have become increasingly cyclical over time. In the current era, the U.S. Treasury bond yield and the world's leading economic indicators have moved in sync. Prior to the 1990s they moved in opposite directions. This phenomenon is seen with global growth and U.S. bond yields, as well as within Europe.

Bond yields have become increasingly cyclical over time

Today, U.S. 10-year yields are still well below 5%. Even more importantly, we expect the relationship between bond yields and economic activity to remain positive, maintaining the current era in which bond yields and stock prices generally move in the same direction. We believe global bond yields have more upside, even if inflation slows in 2022, as we expect. Although in Europe and the U.S., long-term inflation expectations have been flat for the past three months, the outlook for the real yield (10-year Treasury yield minus 10-year inflation expectations) is driving higher as confidence grows in the economic growth outlook and monetary policy begins normalization.

Now, runaway global inflation could still pose a risk. If inflation does not stabilize in 2022, the subsequent increase in yields could turn negative for stocks and for the economic outlook. The current scenario does have the potential to herald the return to a negative correlation between stock prices and bond yields.

What to do?

An investment implication of rising bond yields is that investors should consider an overweight to their stock allocation. Note that rising rates have historically accompanied the outperformance of European stocks compared to the U.S. and within European stocks, outperformance of value stocks over growth stocks. This is largely attributed to the greater cyclicality of both European equities and value stocks. The ten-year European bond yield, which has been in decline since 2007 may be starting a meaningful rise, a possible indication that European value stocks could begin to outperform growth stocks.

Reversal of rates to reverse growth/value performance?

U.S. and global benchmark yields are gaining traction, moving higher along with positive global economic sentiment. Because they are still low by historical standards, we believe they will still be positively correlated to market returns. In this rate environment, economically sensitive stocks, such as European stocks and value stocks, may be poised to outperform based on historical patterns. While rising inflation could risk breaking down this correlation, investors may want to consider increasing their overall stock allocation, with a focus on more cyclical areas of the market.

Planning Your Retirement Income Distribution

By Rob Williams

When investors think about retirement plans, many focus on putting away cash and then investing it wisely to grow their nest egg. But there's a critical piece of retirement income planning that's often overlooked: a strategy to withdraw those carefully tended savings.

While everyone's circumstances are unique, general principles apply to any retirement withdrawal strategy. It's just a matter of drawing up a budget that reflects all your income and spending expectations and devising a suitable distribution strategy.

Avoid tapping your more volatile investment assets to cover regular costs when you could be using income from more predictable sources.

Using predictable income or cash to cover expenses

You may no longer be getting a paycheck, but with proper planning, you can continue earning a steady income after you retire. Good practice is to pay for essential expenses with predictable income, and if possible, fund discretionary expenses with fluctuating income as appropriate for your needs.

For example, Social Security, pension payments, annuities,[1] interest income, or even cash or short-term bonds kept in reserve are among the stable and predictable sources of income you can use to cover necessities like housing, car loans, food, and utilities. For most retirees, we suggest setting aside two to four years of essential expenses in cash or short-term bonds after accounting for other predictable income sources.

Then, fund discretionary expenses (i.e., "nice-to-haves") with growth assets or less certain or less guaranteed income sources from your portfolio. Stock dividends, distributions from mutual or exchange-traded funds, and proceeds from selling investments are often consistent, but not guaranteed, compared to the predictable income sources cited above. This can make them a better fit for nonessential items, like vacations, charitable donations, or gifts to a grandchild.

Another source of retirement "income" may be withdrawals from investments that have increased in value. Stocks or stock mutual funds, for example, provide potential for growth in your portfolio. However, they can be more volatile than predictable or guaranteed income sources.

Avoid tapping your more volatile investment assets to cover regular costs. Selling volatile assets when the market is down can be particularly costly. Instead, use a reserve of lower-volatility investments or cash balances to supplement income from more predictable sources of income.

Rebalancing your portfolio to generate cash flow

Selling investments to generate cash to support spending as part of annual or periodic portfolio rebalancing can provide another opportunity to generate cash flow. Generally speaking, this rebalancing process is especially important for retirees to manage the amount of more volatile investments, such as stocks, in their portfolio. For most retirees, decreasing your risk and exposure to stocks as you age may make sense, depending on your goals and distribution rate.

An out-of-balance portfolio can leave you with more risk or less potential for growth. In volatile markets, these risks can be magnified because retirees have less time than younger investors to potentially recover from losses or lackluster returns of a portfolio that's strayed from a chosen asset allocation.

Portfolios drift away from target allocations as certain asset classes rise or fall, leaving them over- or underweight in areas of the market. To get your portfolio back on target during periods when stocks rise in value, you can sell from the stock portion of your portfolio to generate the cash you need to supplement other income sources. In fact, in down markets, the rebalancing process may lead you to tap investments that held their value or rose in value. (See "Selling investments in tax-deferred or tax-free accounts" below for more information.)

With an eye on the market, the natural process of rebalancing helps you know what to tap and when. However, remember that rebalancing won't protect you against losses or guarantee that you'll meet your goals.

Selling investments in tax-deferred or tax-free accounts

When selling assets, a general guideline is to tap investments in taxable accounts before taking money from tax-deferred or tax-free accounts, such as a traditional or Roth individual retirement account (IRA) or a 401(k).

That's assuming you have enough retirement savings in taxable brokerage accounts and haven't yet reached age 72 (70 ½ if you turned 70 ½ in 2019 or earlier), the age when the IRS requires you to begin taking required minimum distributions (RMDs) from traditional IRA or 401(k) accounts.

Tapping your IRA earlier means losing potential opportunities for tax-deferred compound growth. A possible exception is if your IRA balance is very large relative to other savings or if you need the money sooner. In that case, you might want to start taking distributions before you reach age 72.

Otherwise, when you start taking RMDs after age 72, you might be bumped up to a higher tax bracket. Withdrawals of pre-tax contributions and income from traditional IRAs and 401(k)s are treated as ordinary income—which is typically taxed at a higher rate than long-term capital gains in taxable accounts.[2]

Talk with your advisor or a tax professional to time your retirement income distributions wisely.

Funding your retirement with a strategic distribution plan

One mistake many retirees make is relying only on investment income to support retirement spending and not considering all return sources, including a rise in the value of their investments.

If you can live on investment income only, great. But don't do so at the expense of potential for growth in your portfolio or forget that you have four sources in your portfolio you could tap: interest, dividends, capital gains, and stable assets like cash.

Keep these points in mind as you structure your retirement portfolio and create your own distribution plan, and be sure to watch for changes in your spending or income to ensure that your expectations are on track. In a prolonged down market, for example, you may want to curb or postpone discretionary spending to avoid drawing down your portfolio too quickly.

Creating income during retirement might sound daunting, but it doesn't have to be. Three steps—starting with a plan, investing in a balanced portfolio, and then distributing income from a variety of sources—can help you simplify the process and lay the groundwork for the kind of retirement you've always wanted.

[1]Annuity guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company.
[2]Withdrawals are subject to ordinary income tax, and prior to age 59½, may be subject to a 10% federal tax penalty.

Personal Finance Calendar for 2022

Do you spend more time planning your annual vacation than you do thinking about your personal finances? And when you finally do get around to thinking about your finances, do you usually end up waiting until the last minute? If so, you're not alone. A lot of people put off financial planning or avoid it altogether.

At Schwab, we view personal financial planning as an ongoing, lifelong process—not a one-time event. When you're proactive about your financial planning and break it into small, achievable tasks, it's a lot less daunting—and it can pay huge dividends to you and your loved ones over time. The following personal finance calendar should help you get started.

January

- Resolve to make yourself financially fit in 2022:
  - Manage your debt. Start by paying off all of your high-cost, non-deductible credit cards, and then establish an emergency fund equal to three to six months of expenses, if you haven't already.
  - Create (or update) your cash flow statement (prior year income minus expenses) and statement of personal net worth.
  - Give your portfolio a checkup, and make sure its mix of assets still matches your time horizon and risk tolerance (Schwab clients can log in and use the Portfolio Checkup tool for this). Market changes can cause your portfolio to drift away from its original target asset allocation because as investments gain and lose value, they become a larger or smaller part of your overall portfolio. This may be a good time to rebalance your portfolio back to your chosen asset allocation.
  - If you're retired and drawing from your portfolio, you can combine your portfolio rebalancing with your cash-flow planning for the next 12 months.
- Double-check if and how much you can contribute to your workplace retirement plan. If possible, try to contribute enough to take full advantage of any available employer match. Also, if you're at least 50 years old (or will turn 50 this year), consider making additional catch-up contributions if allowed (up to $6,500 in 2022 for 401(k) and 403(b) plans).
- If you don't pay enough income tax through regular payroll withholding, file your fourth-quarter estimated income tax payment by January 18. (See the IRS Tax Calendar for other federal tax items due throughout the year).
- Any annual tax forms 1099, 1098, and W-2 should be mailed to you no later than January 31 (February 15 for some 1099s).

- If your employer has granted you stock options, restricted stock units (RSUs), or restricted stock awards that are vesting, you'll need to decide how to handle them. Tax treatment is slightly different for each one, so make sure you understand the impact before exercising options or selling shares.

February

- Check your insurance policies (property and casualty, liability, health, disability, life) to be sure you're not paying too much for the wrong kind of coverage.
- Certain mutual funds could restate their distribution information after your initial Form 1099 is mailed to you at the end of January. Though not common, when such fixes are necessary, a corrected 1099 is usually mailed sometime in February. Schwab clients can access tax tools and resources on schwab.com.

March

- If you receive an annual bonus from your employer, use it thoughtfully to increase its potential benefit. It's tempting to splurge, but consider using a bonus to pay down debt, contribute to your retirement plan, or build an emergency fund.
- Check your credit report. You're entitled to a free copy of your credit report every 12 months from each of the three nationwide credit reporting agencies. (Note: Free weekly credit reports that are available due to the pandemic ends April 20, 2022.)

April

- File your income tax return by April 15. If you're requesting an automatic six-month extension, you still need to pay any taxes due by April 15.
- April 15 is also the last day to make a contribution to your IRA or Coverdell Education Savings Account for the prior year.
- If applicable, first-quarter estimated income tax payments are due by April 15.

May

- Create (or update) an inventory of your home and personal property for insurance or estate planning. Use your phone to record a video of your valuable possessions, and then store the video in a secure, remote location.
- Review your estate plan.

June

- Perform a mid-year review of your finances to be sure you're on track:
  - Double check your actual year-to-date income and expenses against your cash-flow projections.
  - Are you on track with your retirement contributions and other savings?
  - Run a projection of your income taxes to be sure you're not paying too much or too little income tax (either through withholding or quarterly payments).

- If applicable, second-quarter estimated income tax payments are due by June 15.

July

- Build or refresh your money skills. Add at least one good book on personal finance or investing to your summer reading list.

August

- Compare what you actually spent on vacation to the amount you projected in your annual cash-flow plan. Start thinking about your holiday budget.
- As the kids or grandkids get ready for school, think about establishing or contributing to a Coverdell Education Savings Account and/or 529 College Savings Plan on their behalf.

September

- If applicable, third-quarter estimated income tax payments are due by September 15.
- If you want to establish a SIMPLE IRA this year for your small business, the account must be opened by October 1.

October

- If you have children heading to college next year, keep in mind that the Free Application for Federal Student Aid (FAFSA) window opens on October 1. It's best to complete the FAFSA as early as possible because states and colleges use it to award their own grants, scholarships, and loans, and that aid is limited.
- File your income tax return by October 15 if you requested a six-month extension back in April.
- If you want to establish and fund an individual 401(k) or SEP IRA for 2022, the account must be opened by your tax filing deadline plus any extensions, which is typically October 15 for most small businesses.
- Run a projection of your current-year income-tax liability to get a head start on your year-end tax planning.
- As open enrollment season rolls around at work, take the time to review your health insurance coverage and other employer benefits.

November

- Don't charge more for holiday gifts than you can comfortably pay for in full when the January credit card statements come around.
- Take time to give thanks for another year of financial success. Review your charitable giving program and consider making tax-deductible gifts to charity or to a donor-advised fund account before the end of the year.

December

- If you have investments that have lost value during the year, consider tax-loss harvesting to potentially lower your tax liability and better position your portfolio going forward.
- If you're 72 or older in 2022, don't forget to take your annual required minimum distribution (RMD) from your IRA or 401(k) by December 31. If you turn 72 on July 1, 2022, or later, you do not need to take an RMD until April 1 next year. Learn more here about when and how to take RMDs.
- Get your annual Social Security Statement. Compare your earnings record against your old tax returns for accuracy.

Avoid COVID-19 scams

Have you gotten robocalls, text messages, or emails offering COVID-19 tests in exchange for your Medicare Number? **Be careful! Scammers are selling fake and unauthorized at-home COVID-19 test kits** in exchange for your personal or medical information. Do not give out your Medicare Number for COVID-19 test kits!

Make sure to purchase FDA-approved COVID-19 test kits from legitimate providers. Over-the-counter or at-home tests are available for sale around the U.S. at many reputable and trustworthy retailers and pharmacies.

Remember, each household in the U.S. can also have four free COVID-19 at-home tests shipped directly to their home at no cost. **Visit COVIDtests.gov** to order tests or learn more about testing.

If you suspect fraud, call 1-800-MEDICARE to report it.

To contact us: go to www.healthcareil.com or Call (800) 739-4700