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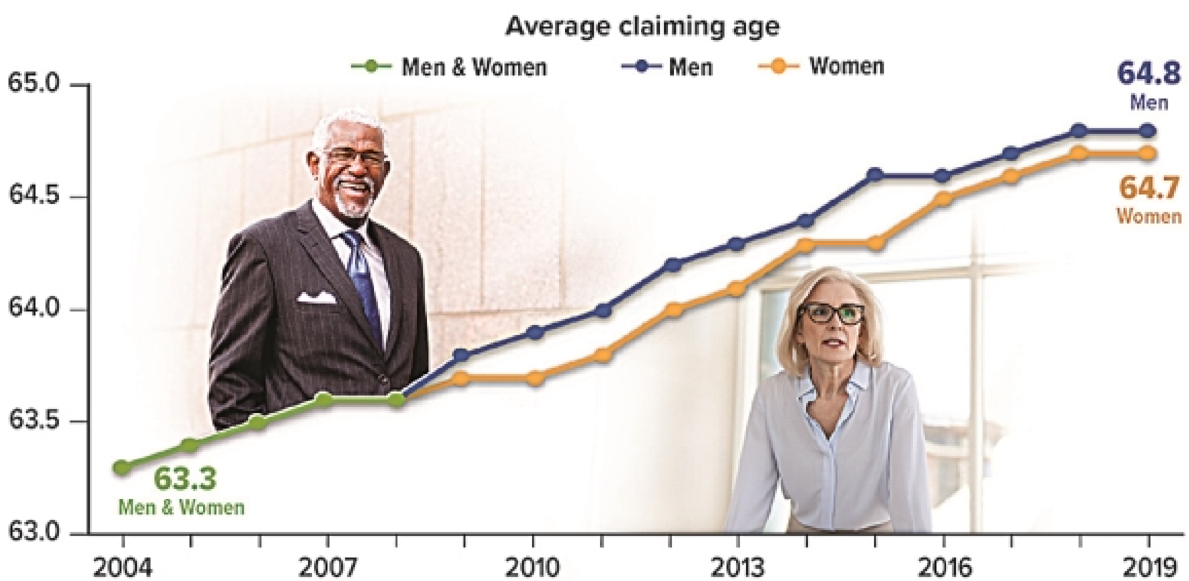
I hope you find the information in this newsletter valuable. Please feel free to call us if you have any questions or concerns. We look forward to speaking to you soon.

Jim

More People Delay Claiming Social Security

The average age for claiming Social Security retirement benefits has been steadily rising. Older Americans are working longer, in part because full retirement age is increasing incrementally from 66 to 67. A worker may begin receiving Social Security retirement benefits as early as age 62, but monthly benefits will be permanently reduced by as much as 30% if claimed before full retirement age — a strong incentive to wait.



Source: Social Security Administration, 2020

Corporate Debt: Are Juicier Yields Worth the Extra Risk?

In response to a pandemic-induced sell-off in March 2020, the Federal Reserve announced that it would purchase corporate bonds, including riskier junk bonds, as part of its effort to stabilize the financial markets. Fed bond buying, along with a pledge to keep interest rates near zero for as long as needed, helped to calm the nerves of investors and to keep money flowing into corporate debt. In fact, U.S. corporations issued more than $2.2 trillion in new debt in 2020, up from $1.4 trillion in 2019.[1]

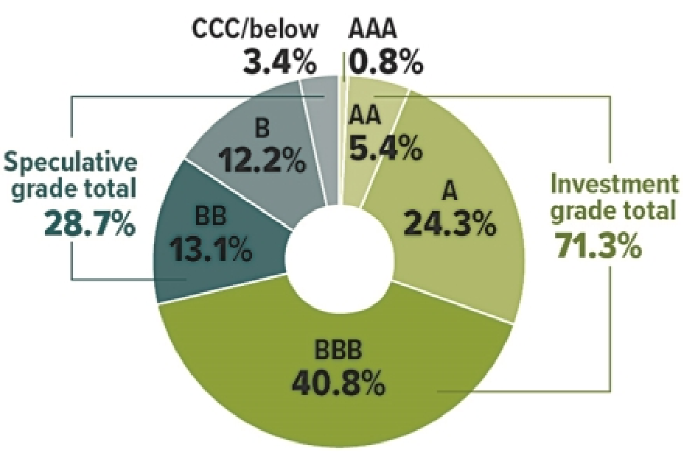
Corporations sell bonds to finance operating cash flow and capital investment. Corporate bonds usually offer higher interest rates — and are subject to more risk — than U.S. Treasury securities with comparable maturities. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest, but distressed corporations occasionally default on payments.

Investors who rely on corporate bonds for retirement income, or to help temper the effects of stock market volatility, should consider the degree of risk they are willing to accept in their bond portfolios.

Credit Risk and Ratings

Most corporate bonds are evaluated for credit quality by one or more ratings agencies, each of which assigns a rating based on its assessment of the issuer's ability to pay the interest and principal as scheduled. Bonds rated BBB or higher by Standard & Poor's and Fitch Ratings, and Baa or higher by Moody's Investors Service, are considered investment grade. Lower-rated corporate bonds (called high-yield or "junk" bonds) are considered non-investment grade or speculative, because they are issued by companies considered to pose a greater risk of default. Bond investors generally receive higher yields as compensation for bearing higher risk.

U.S. corporate debt, by rating category (share of total)



Source: S&P Global Ratings, November 2020

Many factors can alter a company's perceived credit risk, including shifts in economic or market conditions, adjustments to taxes or regulations, and changes in management or projected earnings. When a ratings agency upgrades or downgrades a company's credit rating, or even adjusts the outlook, it often causes the prices of outstanding bonds to fluctuate.

An Uneven Outlook

Thanks to the Fed, many companies have been able to borrow at very low rates and with favorable terms, putting them in better shape to ride out the pandemic and repay their debt over time. On the other hand, some companies in sectors that were harshly impacted by social distancing measures and lockdowns — or that were in a weak financial position before the health crisis began — are more vulnerable to credit pressures.

According to a forecast by S&P Global Fixed Income Research, the trailing 12-month default rate for U.S. speculative-grade corporate debt will rise to 9% by September 2021, up from 6.3% in September 2020. However, the risk of default is greater in hard-hit corporate sectors such as retail, restaurants, travel-related sectors, and oil and gas.[2]

Downgraded bonds that lose their investment-grade ratings are known as fallen angels. There was a spike in fallen angel debt in 2020, and the number of potential fallen angels (rated BBB- with a negative outlook) is projected to decline in 2021 but remain elevated.[3]

Thirsting for Yield

After accounting for inflation, the real yields on many U.S. Treasuries have dropped below zero, while the real yields for many investment-grade corporates are barely positive. As a result, some fixed-income investors may be motivated to invest in riskier high-yield corporate bonds.[4]

Investors who stretch for yield should have the discipline to tolerate the price swings typically associated with lower-quality bonds. And considering the potential for lingering economic uncertainty, investors might want to take a selective approach when evaluating corporate bond investments.

The principal value of bonds may fluctuate with changes in interest rates and market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost.

1) Securities Industry and Financial Markets Association, 2021

2-3) S&P Global Ratings, December 2020

4) *The Wall Street Journal,* November 17, 2020

How Well Do You Understand Retirement Plan Rules?

Qualified retirement plans, such as IRAs and 401(k)s, have many rules, and some of them can be quite complicated. Take the following quiz to see how well you understand some of the finer points.

1. You can make an unlimited number of retirement plan rollovers per year.

A. True

B. False

C. It depends

2. If you roll money from a Roth 401(k) to a Roth IRA, you can take a tax-free distribution from the Roth IRA immediately as long as you have reached age 59½.

A. True

B. False

C. It depends

3. You can withdraw money penalty-free from both your 401(k) and IRA (Roth or traditional) to help pay for your children's college tuition or to pay for health insurance in the event of a layoff.

A. True

B. False

C. It depends

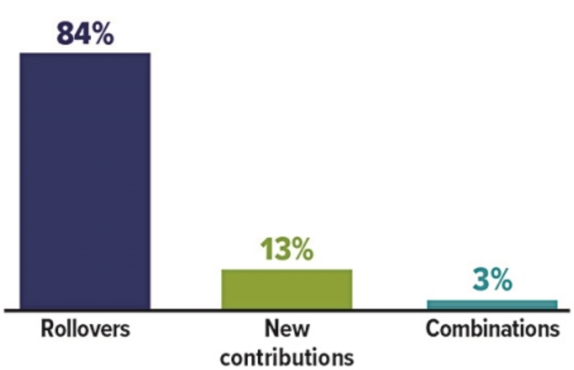
4. If you retire or otherwise leave your employer after age 55, you can take penalty-free distributions from your 401(k) plan. You can't do that if you roll 401(k) assets into an IRA.

A. True

B. False

C. It depends

Shares of Traditional IRA Assets Opened with...



Source: Investment Company Institute, 2020 (data reflects IRAs opened in 2016)

1. C. It depends. Rollovers can be made in two ways — through a direct rollover, also known as a trustee-to-trustee transfer, in which you authorize the funds to be transferred directly from one account or institution to another, or through an indirect rollover, in which you receive a check in your name (less a required tax withholding) and then reinvest the full amount (including the amount withheld) in a tax-deferred account within 60 days. If the full amount is not reinvested, the outstanding amounts will be considered a distribution and taxed accordingly, including any applicable penalty. Generally, individuals can make an unlimited number of rollovers in a 12-month period, either direct or indirect, involving employer-sponsored plans, as well as an unlimited number of direct rollovers between IRAs; however, only one indirect (60-day) rollover between two IRAs is permitted within a 12-month period.

2. C. It depends. Beware of the five-year rule as it applies to Roth IRAs. If you establish your first Roth IRA with your Roth 401(k) rollover dollars, you will have to wait five years to make a qualified withdrawal from the Roth IRA, regardless of how long you've held the money in your Roth 401(k) account, even if you are over 59½. However, if you have already met the five-year holding requirement with *any* Roth IRA, you may take a tax-free, qualified withdrawal.

3. B. False. You can take penalty-free withdrawals from an IRA, but not from a 401(k) plan, to pay for a child's qualifying education expenses or to pay for health insurance premiums in the event of a job loss. Note that ordinary income taxes will still apply to the taxable portion of the distribution, unless it's from a Roth account that is otherwise qualified for tax-free withdrawals.

4. A. True. If you leave your employer after you reach age 55, you may want to consider carefully whether to roll your money into an IRA. Although IRAs may offer some advantages over employer-sponsored plans — such as a potentially broader offering of investment vehicles — you generally cannot take penalty-free distributions from an IRA between age 55 and 59½, as you can from a 401(k) plan if you separate from service. If you might need to access funds before age 59½, you could leave at least some of your money in your employer plan, if allowed.

When leaving an employer, you generally have several options for your 401(k) plan dollars. In addition to rolling money into an IRA and leaving the money in your current plan (if the plan balance is more than $5,000), you may be able to roll the money into a new employer's plan or take a cash distribution, which could result in a 10% tax penalty (in addition to ordinary income taxes) on the taxable portion, unless an exception applies.

Can Creditors Take Your Retirement Savings? It Depends

Given the immense financial hardship inflicted by the COVID-19 pandemic, a rise in personal bankruptcies could be waiting in the wings. For those whose livelihoods have been hit the hardest, it might be important to review the creditor protections that apply to their retirement accounts.

The extent to which assets are protected can vary significantly, depending on the type of account and applicable federal or state law. Being aware of the details can help individuals in financial or legal jeopardy determine whether and/or when they should file for bankruptcy to preserve their retirement funds. It may also help them avoid costly rollover mistakes.

Employer Plans

Most employer-sponsored retirement plans, such as 401(k)s, provide virtually unlimited protection against both bankruptcy and non-bankruptcy general creditor claims under the Employee Retirement Income Security Act of 1974 (ERISA). An example of a general creditor claim is when a person files a lawsuit and wins a judgment in court against the account owner. Thanks to ERISA, creditors cannot attach retirement account funds to satisfy any debts or obligations, regardless of whether bankruptcy has been declared.

Solo 401(k) plans, which are often utilized by self-employed individuals and independent contractors, are not covered by ERISA. This means that solo 401(k) plans — along with other non-ERISA employer plans such as 403(b)s, 457(b) governmental plans, and SEP and SIMPLE IRAs — do not receive non-bankruptcy creditor protection under federal law, though they are fully protected from bankruptcy under the Bankruptcy Code. (Outside of bankruptcy, general creditor protection is based on state law.)

IRAs and Rollovers

Traditional and Roth IRA contributions and earnings are protected from bankruptcy up to $1,362,800 per person until April 1, 2022. This limit is for all accounts combined and is adjusted for inflation every three years. Rollovers from employer plans, including SEP and SIMPLE plans, do not count against this cap. However, the U.S. Supreme Court ruled unanimously that IRA assets inherited by nonspouses are not protected under the Bankruptcy Code.

General creditor protection for traditional and Roth IRAs is based on state law, as it is with SEP and SIMPLE IRAs. So, account owners should carefully consider their own state's general creditor protections before rolling fully protected ERISA plan dollars into an IRA. Those who change jobs should remember they may have two other options: leave savings in the former employer's plan or transfer them to a new employer's plan, if allowed. Unfortunately, retirement account withdrawals and pension benefits paid as income are no longer protected from bankruptcy, so creditors may wait patiently and stake a claim to retirement funds after they are withdrawn.