Upcoming Financial Events as You Approach 65

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Class Outline

- Retirement & Retirement Income (Three-legged Stool)
  - Pension
  - Social Security
  - Personal Savings (401K, IRA, RMDs, Roth 401K, Roth IRA)
- Healthcare (Options, Premiums, Expenses)
  - Medicare (Parts A, B, C, & D)
  - Medicare Supplement Insurance (Medigap)
  - LTC (Long Term Care) Insurance
- Taxes
  - Property Taxes when over age 65
  - Income Tax implications on retirement income

Retirement & Retirement Income (Three-legged Stool)

- Income and/or Deferred Income (Leg 0a)
- Pensions (Leg 1)
- Taxable (Sav.Accts., CDs, 401Ks, IRAs) (Leg 3a)
- Social Security (Leg 2)
- Non-taxable (Roth 401Ks, Roth IRAs) (Leg 3b)
- Cost Recovery (LTC & Life Ins. payments) (L0b)

Pension Payout Options

- If you have a pension plan with your employer or former employer, you need to determine what payout options are available to you. Choices could include:
  - Lump Sum (would need to reinvest to continue income stream)
  - 100/100 Joint Life Annuity (lowest monthly payout)
  - 100/75 Joint Life Annuity (lower payout after death)
  - 100/50 Joint Life Annuity (ditto)
  - Single Life Annuity (highest monthly payout)
  - 10-Year Guaranteed Term (even if annuitant dies)
  - 5-Year Guaranteed Term (ditto, higher monthly)

Taxable Social Security

- Single
  - < $25,000 0%
  - $25-34,000 50%
  - > $34,000 85%
- Married
  - < $32,000 0%
  - $32-44,000 50%
  - > $44,000 85%

Social Security

- Dallas Morning News – every Sunday in the Metro Section
  - Tom Margenau has Q&A about SS (Thomas.Margenau@comcast.net)
- Retired lifetime employee with SSA
- SSA.gov
  - Set up an online account
- Local Offices
  - Denton – 2201 Colorado Blvd – M,T,H,F 9-4; W 9-Noon 1-888-717-1530
  - McKinney – 3250 Craig Dr – M,T,H,F 9-4; W 9-Noon 1-866-931-2731
Social Security Q&A

- Q1 – Spousal Benefits
- Q2 – Widow(er)s Benefits
- Q3 – Survivor Benefits
- Q4 – Age 70 Benefits
- Q5 – Offset Rules
- Q6 – Increases in SS if still working
- Q7 – Returning Social Security Benefits

Social Security Benefits

- Retirement (Age 62-70)
- Widow(er) (Age 60+, or w/child <16)
- Dependents (Limited to 2x FRA, parent of child(ren) <16, and child(ren) <18 or <20 & full-time prim./sec. student)
- Disability – Administered by SSA (General Fund Expense)

Social Security Eligibility - FRA
(Full Retirement Age - birth year)

Note: If you were born on January 1+, use the preceding year

Comparison of Early / Regular / Deferred SS Benefits

Working in Retirement

Years before full retirement age: $1 of SS benefits deducted for each $2 earned above $18,240 (2020) or $1,520 / month.

Year of full retirement age: $1 of SS benefits deducted for each $3 earned above $48,600 (2020) or $4,050 / month until the month you reach FRA.

No deductions in earnings once you reach Full Retirement Age.
Estimated Average Monthly SS Benefits Payable in 2020

<table>
<thead>
<tr>
<th>Category</th>
<th>Before 1.6% COLA</th>
<th>After 1.6% COLA</th>
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<tbody>
<tr>
<td>All Retired Workers</td>
<td>$1,479</td>
<td>$1,503</td>
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<tr>
<td>Aged Couple, Both Receiving Benefits</td>
<td>$2,491</td>
<td>$2,531</td>
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<tr>
<td>Widowed Mother and Two Children</td>
<td>$2,888</td>
<td>$2,934</td>
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<td>Aged Widow(er) Alone</td>
<td>$1,400</td>
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<tr>
<td>Disabled Worker, Spouse and 1+ Children</td>
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<tr>
<td>All Disabled Workers</td>
<td>$1,238</td>
<td>$1,258</td>
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</tbody>
</table>

Helpful Social Security Contacts

- Plan Your Retirement: [www.ssa.gov/retire2](http://www.ssa.gov/retire2)
- Get Your Statement: [www.ssa.gov/myaccount](http://www.ssa.gov/myaccount)
- When to receive benefits: [www.ssa.gov/pubs/10147.html](http://www.ssa.gov/pubs/10147.html)
- Survivor Benefits: [www.ssa.gov/pubs/10084.html](http://www.ssa.gov/pubs/10084.html)
- SS Toll Free number: 1-800-772-1213

Third Leg – Personal Savings

- Savings Accounts / CDs
- Stocks / Bonds / Annuities
- IRAs
- 401Ks
- Roth IRAs
- Roth 401Ks

IRAs

- Annual IRA deferral limit for 2020 is $7,000 (> age 50)
- Withdrawals are taxed at higher ordinary income rates (not lower capital gains rates)
- Withdrawals before age 59 ½ are assessed a 10% penalty
- Consider withdrawing IRA funds for retirement before applying for Social Security to minimize tax impact to social security income
- Must begin withdrawing funds by April 1st of the year following the year you reach 72 (new in 2020)
- A second withdrawal will be required by December 31st of that year
- See Publication 590-B at IRS.gov

RMDs (Required Minimum Distributions) when over 70½ (or 72)

401Ks

- If you are not already, increase your 401K contributions to maximize your employer match
- Annual 401K deferral limit for 2020 is $26,000 (> age 50)
- Withdrawals are taxed at higher ordinary income rates (not lower long-term capital gains rates)
- Withdrawals before age 59 ½ are assessed a 10% penalty
- May have to move 401K account to an IRA when you retire based upon company policy (no tax implication)
- Consider withdrawing 401K funds for retirement before applying for Social Security to minimize tax impact to social security income; must start removing funds by age 72
### Roth 401K and Roth IRA

**Roth 401K**
- Similar to a 401K, however, distributions are not taxed if made after age 59½
- Distributions must begin no later than age 72

**Roth IRA**
- Similar to an IRA, however, distributions are not taxed or penalized if made after age 59½
- No requirement to start taking distributions while owner is alive

### Medicare (Parts A, B, D, & C)

**Part A – Hospitalization**
- Available at age 65 or later – No premium

**Part B – Doctors, services, DME**
- Available at age 65 w/ no penalty, later with potential penalty - Premium

**Part D – Prescription Drug coverage**
- Available at age 65 w/ no penalty, later with potential penalty – Premium

**Part C – Medicare Advantage**
- (like an HMO or PPO) – Potential premium – Plans will differ from state to state
- Annual reenrollment: October 15 – December 7
- If working beyond age 65, company may require you to acquire Medicare and company will act as Medicare Supplement (Medigap)
- Contact: [www.Medicare.gov](http://www.Medicare.gov) or 1-800-Medicare (633-4227)

### Medicare Part A – No premium

- Hospital care
- Skilled Nursing Facility (SNF) care
- Nursing Home care (if custodial care (6 ADLs) is not the only care you need)
- Hospice
- Home Health services
- Available at age 65 or later
- May not contribute to HSA once Medicare coverage begins

### Medicare Part B – Premium

- Medically necessary services, Preventive services
- Ambulance services, Clinical research
- Durable medical equipment (DME) (e.g. CPAP, walker)
- Mental Health (Inpatient, Outpatient, Partial hospitalization)
- Getting a second opinion before surgery
- Limited outpatient prescription drugs
- Available at age 65 w/ no penalty, later w/ potential penalty
- Increased premium – Married > $170K, Single > $85K

### Medicare Part D – Rx coverage – Premium

- Premium determined by plan you must choose (each year preferably)
- Pick plan based upon drugs you take, pharmacy you use and zip code in which you live
- Medicare.gov will show you all plans for your zip code based upon the drugs you entered and the pharmacy you prefer to use
- If you don’t enroll at age 65 and don’t have other prescription insurance, you will pay an ever-increasing late-enrollment penalty whenever you do enroll (i.e. 1%/month of lateness)

### Medicare Part C – Potential premium

**Medicare Advantage (like an HMO or PPO)**
- Includes both Part A (Hospital Insurance) and Part B (Medical Insurance), may include Part D (Prescription Insurance) and vision, hearing, or dental, as well
- Coverage provided by private insurance companies approved by Medicare
- You may need to use health care providers who participate in the plan’s network (plans may differ from state to state)
- You may pay a monthly premium for your plan (in addition to your monthly Part B premium)
- Plans have a yearly limit on your out-of-pocket costs; once you reach a certain limit, you’ll pay nothing for covered services for the rest of the year
- Your out-of-pocket costs are typically lower in an MA plan; this option may be more cost effective for you
Medicare Supplement Insurance (Medigap) – Optional – Premium

- Ten different plans (A, B, C, D, F, G, K, L, M, N)
- If an insurance company sells any Medigap, they must sell plan A
- Plan A – Basic – Part A & B co-ins and/or co-pay, Hospice co-ins/co-pay, blood (3 pints)
- Plan B – Same as A plus Part A deductible
- Plan D – Same as B plus SNF co-ins and 80% foreign travel
- Plan G – Same as D plus Part B excess charges
- Plan C – Same as D plus Part B deductible (no longer available to new participants)
- Plan F – Same as C plus Part B excess charges (no longer available to new participants)
- Plan K – Part A co-ins, plus 50% of Part B co-ins/co-pay, blood, Hospice, SNF co-ins, Part A deductible with out-of-pocket limit of $5,880
- Plan L – Same as K except 75% of all payments with out-of-pocket limit of $2,940
- Plan M – Same as A plus SNF co-ins, 50% Part A deductible and 80% foreign travel
- Plan N – Same as B plus SNF co-ins and 80% foreign travel with $20 office co-pay and $50 non-admittance hospital co-pay

Compare the benefits of each lettered plan to help you find one that meets your needs now and in the future.

Medigap Plan C & F demise

- New subscribers cannot purchase after 12/31/19
- Current subscribers can continue to keep plans C or F
- Current subscribers cannot transfer to plans C or F after 12/31/19 from another Medigap plan

LTC (Long Term Care) Insurance

- Provides an income stream to cover long-term care in a nursing home, assisted or independent living (including home)
- Best purchased before age 60 to obtain lower rates
- This is term insurance, if not used, premiums are forfeited
- To lower premiums, increase waiting period (90-100 days is typical)

Taxes

- Property Taxes
- Federal Income Taxes

Property Taxes when over age 65

- Property Tax Caps for those over 65
  - School Tax (as established by school district)
  - County Tax (as established by county-wide vote, e.g. Denton county)
  - City Tax (as established by city-wide vote, e.g. Denton city)
  - Other taxing districts are not capped (e.g. college, library, etc.)
- Property Tax payment plan
  - Four quartile payments – 1/31, 3/31, 5/31, 7/31
- Property Tax payment option
  - Before 12/31 or 1/31, understand income tax implications if itemizing
- Property Tax Deferral
  - May be deferred until the home is sold (by you or heir at time of death)
  - Tax lien placed on home
  - 8% interest accumulated annually
Income Tax Implications on Retirement Income

- Income Tax impact on Social Security income
  - Single – No tax impact if other income is less than $25,000
  - Married – No tax impact if other income is less than $32,000
  - Above these limits, social security income will be taxed on a stepped scale capping at 85% taxable
    - At least 15% of SS income will always be tax free
- If possible, defer SS income until other taxable income is minimized
- Withdrawing Roth IRA and Roth 401K funds are a non-taxable event
  - If invested for five years and over 59 ½

Some Simple Tax Strategies

- Standard Deductions vs. Itemized Deductions
  - Single <65 $12,200
  - Single 65+ $13,800
  - Married – both <65 $24,400
  - Married – one <65 $25,700
  - Married – both 65+ $27,000
- Bunching Itemized Deductions

Potential Itemized Deductions

- Medical
  - Medicare part B & D or C premiums
  - Co-pays
  - Medigap & LTC insurance premiums
  - Mileage to doctors, dentists, hospital, pharmacy
- Taxes – Property & Sales
- Interest - Mortgage
- Contributions
  - Church or any 501(c)(3) organization
  - Volunteer mileage

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Questions...

Comments...

Please don’t forget to submit your Class Evaluation!