Upcoming Financial Decisions as You Approach Age 65 and Beyond (v4.0)

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Class Outline
- Retirement Income
  - Social Security and/or government pensions (e.g., TRS)
  - Personal Savings (401K, IRA, RMDs, Roth 401K, Roth IRA)
  - Corporate Pensions
- Healthcare (Options, Premiums, Expenses)
  - Medicare (Parts A-Hosp; B; C-Medicare Advantage; & D-Rx)
  - Medicare Supplement Insurance (Medigap)
  - Long Term Care (LTC) Insurance
- Taxes
  - Property taxes when over age 65
  - Income tax implications on retirement income

Social Security Benefits
- Retirement (Age 62-70)
  - FRA – Full Retirement Age
  - TRS – Teacher Retirement System / other gov. pension reduction
- Widow/er (Age 60+, 50+disabled, w/child <16 or disabled)
- Dependents (Child<18, child<20 & full-time prim./sec. student, or disabled before age 22; limited to 2x FRA)
- Divorcee – 62+, married for 10 years, unmarried for 2
- Disability – Administered by SSA (Gen. Fund Expense)
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Social Security Eligibility - FRA (Full Retirement Age - birth year)

- FRA 65 years
  - 1955
  - 1956
  - 1957
  - 1958
  - 1959

- FRA 66 years
  - 1954
  - 1956
  - 1958
  - 1960+

- FRA 67 years
  - 1955
  - 1957
  - 1959

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

When Should I Begin SS Benefits?

<table>
<thead>
<tr>
<th>Birth Year</th>
<th>FRA</th>
<th>Full Retirement, Age 62, &amp; Age 70 Benefit By Year Of Birth</th>
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<tbody>
<tr>
<td>1954-55</td>
<td>66</td>
<td>$1000 benefit reduced to $750 reduced by 25.00% $350 reduced to $1,320</td>
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<tr>
<td>1955</td>
<td>66 and 2 months</td>
<td>$741 reduced to $345 reduced by 50.00% $350 increased to $1,320</td>
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<tr>
<td>1956</td>
<td>66 and 4 months</td>
<td>$733 reduced to $341 reduced by 48.33% $350 increased to $1,293</td>
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<tr>
<td>1957</td>
<td>66 and 6 months</td>
<td>$725 reduced to $337 reduced by 50.00% $350 increased to $1,280</td>
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<tr>
<td>1958</td>
<td>66 and 8 months</td>
<td>$716 reduced to $333 reduced by 48.33% $350 increased to $1,267</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 10 months</td>
<td>$708 reduced to $329 reduced by 41.67% $350 increased to $1,253</td>
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<tr>
<td>1960+</td>
<td>67</td>
<td>$700 reduced to $325 reduced by 0.00% $350 increased to $1,240</td>
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</tbody>
</table>

Cumulative Benefits Over Time

At Age 62
- $1000 benefit reduced to $750 reduced by 25.00% $350

At Age 70
- $1000 benefit increased to $1,320
Social Security Q&A

● Q1 – Spousal Benefits
● Q2 – Widow(er)s Benefits
● Q3 – Survivor Benefits
● Q4 – Age 70 Benefits
● Q5 – Offset Rules (WEP)
● Q6 – Increases in SS if still working
● Q7 – Returning SS Benefits upon death

Working in Retirement

Years before full retirement age: $1 of SS benefits deducted for each $2 earned above $21,240 (2023) or $1,770 / month.

Year of full retirement age: $1 of SS benefits deducted for each $3 earned above $56,520 (2023) or $4,710 / month until the month you reach FRA.

No deductions in earnings once you reach Full Retirement Age.

Estimated Average Monthly SS Benefits Payable in 2023

<table>
<thead>
<tr>
<th>Category</th>
<th>Before 8.7% COLA</th>
<th>After 8.7% COLA</th>
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<tbody>
<tr>
<td>All Retired Workers</td>
<td>$1,681</td>
<td>$1,827</td>
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<tr>
<td>Aged Couple, Both Receiving Benefits</td>
<td>$2,734</td>
<td>$2,972</td>
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<tr>
<td>Widowed Mother and Two Children</td>
<td>$3,238</td>
<td>$3,520</td>
</tr>
<tr>
<td>Aged Widow(er) Alone</td>
<td>$1,567</td>
<td>$1,704</td>
</tr>
<tr>
<td>Disabled Worker, Spouse and 1+ Children</td>
<td>$2,407</td>
<td>$2,616</td>
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<tr>
<td>All Disabled Workers</td>
<td>$1,364</td>
<td>$1,483</td>
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</table>
Taxable Social Security

Non-SS Income + ½ SS:

- **Single**
  - < $25,000 0%
  - $25-34,000 50%
  - > $34,000 85%

- **Married**
  - < $32,000 0%
  - $32-44,000 50%
  - > $44,000 85%

Social Security

- [www.SSA.gov](http://www.SSA.gov) 1-800-772-1213
  - Set up an online account for each person SSA.gov/myAccount
  - Share password with spouse (consider dementia)
- Local Offices – M, T, H, F 9-4, W 9-Noon
  - Denton – 2201 Colorado Blvd – 1-888-717-1530
  - McKinney – 3250 Craig Dr – 1-866-931-2731
- Dallas Morning News – every Sunday in the Metro Section
  - Tom Margenau has Q&A about SS
    (Thomas.Margenau@comcast.net)
  - Retired 32-year employee with SSA
  - Book available called: Social Security: Simple & Smart

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)
- SS Toll Free number: 1-800-772-1213
Retirement & Retirement Income

- Current Income and/or Deferred Income
- Corporate or Government Pensions
- Taxable Savings Withdrawals
- Social Security
- Non-taxable Savings Withdrawals
- Cost Recovery (Prepaid LTC & Life Ins Prem)

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 (still lower payout after death)
  - Single Life Annuity (highest monthly payout)
  - 10-Year Guaranteed Term (even if annuitant dies)
  - 5-Year Guaranteed Term (ditto, higher monthly)

Taxable Savings Withdrawals

- Annuities
- Dividends / Bond Interest
- Sale of Stocks & Bonds
- Withdrawal from IRAs, 401Ks, & 403Bs
Upcoming Financial Decisions as You Approach Age 65 and Beyond

IRAs

- Annual IRA deferral limit for 2023 is $7,500 (>= 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 age 73 (new in 2023) (75 in 2033)
- A second withdrawal will be required by December 31st of that same year
- See Publication 590-B at IRS.gov

Required Minimum Distributions (RMD) when over 73

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<th>Age of IRA Owner</th>
<th>Expected Life (in years)</th>
<th>Age of IRA Owner</th>
<th>Expected Life (in years)</th>
<th>Age of IRA Owner</th>
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<td>3.9</td>
<td>93</td>
<td>8.4</td>
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<td>71</td>
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<td>72</td>
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<td>122</td>
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<tr>
<td>73</td>
<td>3.3</td>
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<td>123</td>
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<tr>
<td>74</td>
<td>3.1</td>
<td>97</td>
<td>6.4</td>
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<td>124</td>
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<tr>
<td>75</td>
<td>2.9</td>
<td>98</td>
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<td>76</td>
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<td>5.6</td>
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<td>126</td>
<td>1.6</td>
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<tr>
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<td>100</td>
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<td>127</td>
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<td>101</td>
<td>4.9</td>
<td>124</td>
<td>2.1</td>
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<td>0.6</td>
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<tr>
<td>79</td>
<td>2.0</td>
<td>102</td>
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<td>1.6</td>
<td>129</td>
<td>0.1</td>
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<tr>
<td>80</td>
<td>1.8</td>
<td>103</td>
<td>4.3</td>
<td>126</td>
<td>1.1</td>
<td>130</td>
<td></td>
</tr>
</tbody>
</table>

Example: $100,000 balance divided by 26.5 = $3,774 at age 73

401Ks

- If you are not already, increase your 401K contributions to maximize your employer match
- Annual 401K deferral limit for 2022 is $30,000 (>= 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 if performed properly)
- 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 73
Non-Taxable Savings Withdrawals

- Savings Accounts / CDs
- Roth IRAs
- Roth 401Ks

Roth 401K and Roth IRA

**Roth 401K**
- Like a 401K, however, distributions are not taxed if made after age 59½
- Distributions must begin no later than age 73

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

Upcoming Financial Decisions as You Approach 65

**Questions...**

**Comments...**

We’ll continue class next week discussing Medicare and more.
GKoenig@OpenFour.com
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 premium-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)

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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 (Eating, Bathing, Dressing, Grooming, Mobility, Toileting)
- Hospice care (facility or home)
- Home Health services
- Available at age 65 or later
- May not contribute to HSA once Medicare coverage begins

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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** for remainder of life
- Increased premium – Married > $170K, Single > $85K
Medicare Part D – Rx coverage –

**Premium**

- 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
- Premium determined by plan you must choose (each year preferably), plus hickey for high income
- 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)

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Medicare Part D – Rx coverage –

**Premium (continued)**

- 11 Companies selling Part D in TX for 2023
- 27 Plans to choose within these 11 companies
- Monthly premiums range: $6.60 - $108.00
- Annual deductibles range: $0 - $505
  - Some tier drugs may be before the deductible
- Co-pays range: $0 - $47 and/or
  - Co-insurance range: 15% - 50%
- Extra Help: 5 plans shown in Blue ink, $0 premium
- Consumer plan ratings: 75% - 83%

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**Part D Excess Premiums based on Income (for 2022 --- 2023 TBD) “Part D-IRMAA”**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Below $30,000</td>
<td>$0</td>
<td>Below $42,000</td>
<td>$0</td>
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<tr>
<td>$30,000 - $42,000</td>
<td>$0.10 + your plan premium</td>
<td>$42,000 - $60,000</td>
<td>$0.16 + your plan premium</td>
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<td>$42,000 - $60,000</td>
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<td>$91,000 or above</td>
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<td>$50,000,000 or above</td>
<td>$6.25 + your plan premium</td>
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</table>
Medicare Part C – Potential premium
Medicare Advantage (HMO, MSA, PPO, PFFS, SNP)

- Includes both Part A (Hospital Insurance) and Part B (Medical Insurance), may include Part D (Prescription Insurance) and vision, hearing, or dental, as well (which are not covered by "regular" Medicare)
- 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; there are five different MA plan types

Medicare Supplement Insurance (Medigap) – Optional – Big Premium

- Ten different plans (A, B, C, D, F, G, K, L, M, N) all available in Texas
- 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 $6,620 for 2022
- Plan L – Same as K except 75% of all payments with out-of-pocket limit of $3,310
- 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.

<table>
<thead>
<tr>
<th>Benefits</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
<th>K</th>
<th>L</th>
<th>M</th>
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<td>Part B copay limit</td>
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<td>Blood (first 6 pints)</td>
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<td>C</td>
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<td>80%</td>
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<td>Out-of-pocket</td>
<td>$6,620</td>
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Notes:
- Plan F & Plan G also offer a high deductible plan in some states.
- Plan B & Plan F do not offer a high deductible plan in some states.
- Plan B & Plan F do not offer a high deductible plan in some states.
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Medigap Plan C & F demise

- New subscribers cannot purchase after 2019
- Current subscribers can continue to keep plans C or F
- Current subscribers cannot transfer to plans C or F after 2019 from another Medigap plan
- Medicare has a good explanation of Medigap at: https://www.medicare.gov/health-drug-plans/medigap/basics

LTC (Long Term Care) Insurance

- Provides an income stream to cover long-term care in a nursing home, assisted or independent living (including home health care)
- 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)
- New LTC contracts have been declining in sales due to the sharp increase in prices over the last 10 years

Taxes

- Property Taxes
- Federal Income Taxes
**Property Taxes when over age 65**

- Property Taxes are capped for those with the over 65 exemption
  - School Tax (as established by state law for all school districts)
  - 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.)

**Paying Property Taxes when over age 65**

- Property Tax payment plan for those with the over 65 exemption
  - Four quartile payments – 1/31, 3/31, 5/31, 7/31

- Property Tax payment option
  - Before 12/31 if you want to itemize this deduction on this year’s federal tax return
  - Before 1/31, if you want to itemize on next year’s tax return

- 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 plus 50% of SS is less than $25,000
  - Married – No tax impact if other income plus 50% of SS is less than $32,000
  - Above these limits, social security income will be taxed on a stepped scale capping at 85% taxable

- 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 age 59 ½
Some Simple Tax Strategies

- Standard Deduction vs. Itemized Deduction
  - Single:  <65 $12,950  65+ $14,700
  - Married: both <65 $25,900  65+ $28,700
  - Married: one <65 $27,300
  - Blind: $1,400 per person

- 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

Upcoming Financial Events as You Approach 65

Questions...

Comments...

Please don't forget to submit your Class Evaluation!