MILESTONE
Financial Associates LLC

Approaching Retirement? 5 Things Every Retiree Needs to Know!

Presented By:

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  - Guitar
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MILESTONE

Financial Associates LLC

Macungie Office

Bethlehem Office

- Offer independent, comprehensive fee-based financial advice and wealth management
- We **DO NOT SELL** any manufactured or proprietary investment products
- We do not charge for initial consultations

5 Things Every Retiree Asks

- 1. Healthcare – Medicare for Age 65+? / Options for Pre-Age 65 retirement? What are HSA's?
- 2. Social Security – When should I take it and what strategy should I use?
- 3. Investments – How do I design my investments to last my lifetime and minimize my taxes? What are annuities?
- 4. Taxes – What taxes will I pay and what changes?
- 5. What am I going to do with my time?

Healthcare – Post Age 65

Step 1: Decide how you want to get your coverage

Original Medicare — **OR** — **Medicare Advantage Plan (HMO or PPO)**

- Part A Hospital Insurance
- Part B* Medical Insurance
- Part C Combines Part A, Part B, and **usually** Part D

Step 2: Decide if you need to add drug coverage

- Part D Prescription drug coverage

Step 3: Decide if you need to add supplemental coverage

- Medicare Supplement Insurance (Medigap policy)

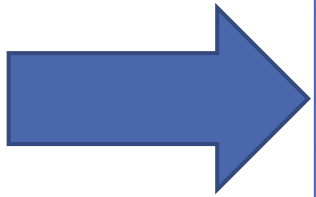
*Standard monthly premium for Part B in 2019 is $135.50.

*If your modified adjusted gross income as reported on your IRS tax return from 2 years ago is above a certain amount, you may pay an Income Related Monthly Adjustment Amount (IRMAA).

Source: https://www.medicare.gov/pubs/pdf/10050-medicare-and-you.pdf

Healthcare – Pre Age 65

- Healthcare.gov offers health plans to purchase
- Issue: COST! The average plan for a married couple age 60 costs between $23,280 and $32,592 depending on the level of coverage.
- Solution: Potential reduced cost through Subsidy based on Modified Adjusted Gross Income (MAGI). For the same couple, qualifying for a subsidy could reduce their premiums significantly (78% - 100%).
- MAGI Includes:
  - Earnings – Wages, Self-Employment Income
  - Social Security Benefits (including non-taxable amounts)
  - Pension Income
  - Capital Gains / Interest / Dividends
  - Traditional IRA or 401(k) Income
  - Tax Exempt Income (Municipal Bonds)
  - Rental Income



Household/ Family Size	100%	138%	150%	200%	250%	300%	400%
1	$12,140	16,753	18,210	24,280	30,350	36,420	48,560
2	$16,460	22,715	24,690	32,920	41,150	49,380	65,840
3	$20,780	28,676	31,170	41,560	51,950	62,340	83,120
4	$25,100	34,638	37,650	50,200	62,750	75,300	100,400
5	$29,420	40,600	44,130	58,840	73,550	88,260	117,680
6	$33,740	46,561	50,610	67,480	84,350	101,220	134,960

Source: https://www.healthcare.gov/glossary/federal-poverty-level-FPL/

Health Savings Accounts (HSA's)

- A Health Savings Account (HSA) is a tax-advantaged account used in conjunction with an HSA-eligible high deductible health plan (HDHP) that eligible individuals may establish to pay for current and future qualified medical expenses for themselves, their spouse, and their qualifying dependents.
  - A high deductible health plan (HDHP) is a plan with a higher deductible than a traditional insurance plan. The monthly premium is usually lower, but you pay more out of pocket health care costs yourself before the insurance company starts to pay its share (your deductible).

HSA Eligibility

- To be eligible for an HSA, you must meet the following requirements:
  - You are covered under a high deductible health plan (HDHP)
  - You have no other health coverage
  - You aren't enrolled in Medicare
    - Must stop making contributions 6 months before enrolling
  - You can't be claimed as a dependent on someone else's tax return
- If you meet these requirements, you are an eligible individual even if your spouse has non-HDHP family coverage, provided your spouse's coverage **doesn't cover you**.

How much can I contribute?

Contribution and Out-of-Pocket Limits for Health Savings Accounts and High-Deductible Health Plans			
	2019	**2018**	**Change**
HSA contribution limit (employer + employee)	Self-only: $3,500 Family: $7,000	Self-only: $3,450 Family: $6,900*	Self-only: +$50 Family: +$100
HSA catch-up contributions (age 55 or older)	$1,000	$1,000	No change
HDHP minimum deductibles	Self-only: $1,350 Family: $2,700	Self-only: $1,350 Family: $2,700	No change No change
HDHP maximum out-of-pocket amounts (deductibles, co-payments and other amounts, but not premiums)	Self-only: $6,750 Family: $13,500	Self-only: $6,650 Family: $13,300	Self-only: +$100 Family: +$200
Source: IRS, Revenue Procedure 2018-30.			

Why contribute to an HSA?

- Frequently referred to as “triple tax-free”. You’re **not** taxed on:
  - Money you put into the HSA account
  - Any interest earned on money while in the HSA
  - Money pulled out of the HSA account used for qualified medical expenses
- No expiration date on funds
  - Money can remain in the HSA until you use it (no “use it or lose it”)
- Can use it for spouse and dependents
  - Even if they aren’t covered by the HDHP
- Can keep the HSA if your job changes or you retire
- Once you reach age 65, nonmedical withdrawals are taxed at your current tax rate…similar to an IRA account
  - If you’re 64 or younger, you’ll owe taxes plus a 20% penalty
- Can use the account to pay for health expenses now, but any remaining funds can be used when you’re older and more likely to need medical care.

What can I use my HSA for?

- IRS Publication 502 outlines qualified expenses (2018 pages 5-17)
- Some include:
  - Co-payments and co-insurance
  - Deductibles
  - Office visits
  - Most dental and vision expenses
- Some of the things NOT included are:
  - Childcare
  - Cosmetic surgery
  - Insurance premiums
  - Health club dues
  - Nutritional supplements
  - Personal use items (toothbrush and toothpaste)
  - Veterinary fees

Social Security – The Largest Financial Decision You'll Ever Make?

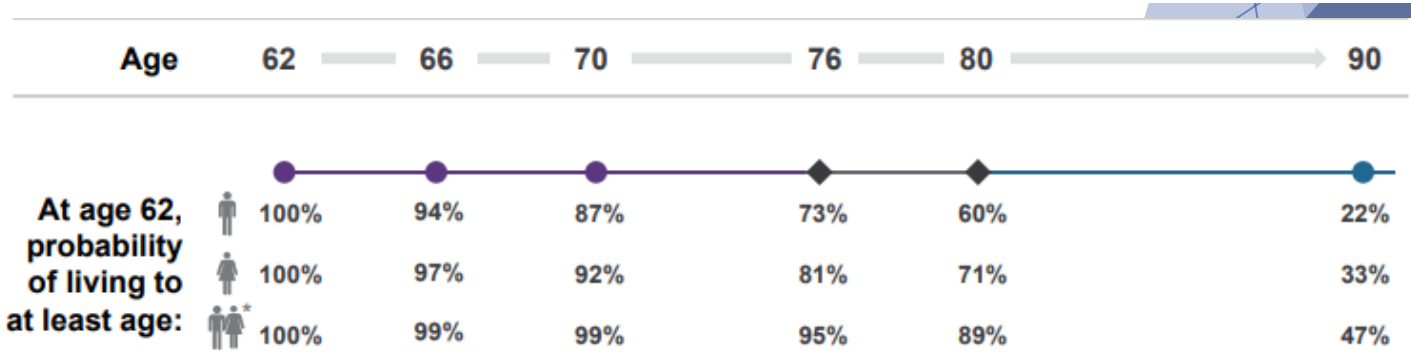
- Key Consideration for Collecting Social Security Benefits
  - Health. Life Expectancy is key in determining what the right strategy is for you
  - Marital Status. If married, when the higher income earner starts benefits is key
  - Divorced? If married 10 years or longer to an ex-spouse you may be eligible to collect off of the ex-spouse's record
  - Widow/Widower? Can elect survivor benefits as early as age 60
  - What are your other retirement assets? Social Security benefits increase at 8% per year each year you delay benefits. It may make sense to pull from your investment accounts and delay taking Social Security benefits depending on your retirement goals.
  - What's your full retirement age?

Years born	Full Retirement Age (FRA)
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Social Security – The Largest Financial Decision You'll Ever Make?

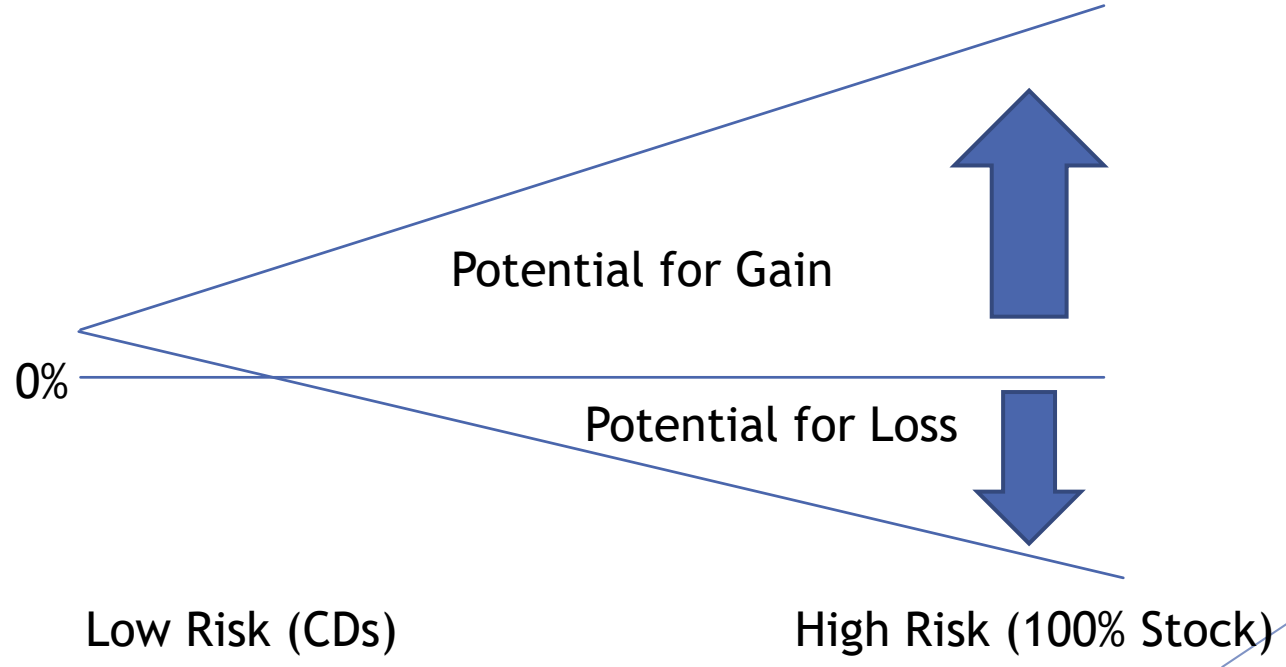
Social Security Strategy	Selected Strategy	As Soon As Possible	At Retirement	At FRA	At Age 70	Mr. begins at age 70 and Mrs. begins at FRA
Start age						
Mr.	66	62	62	66	70	70
Mrs.	66	62	62	66	70	66
First year benefit in current dollars						
Mr.	$27,215	$20,412	$20,412	$27,215	$35,199	$35,199
Mrs.	$23,965	$17,973	$17,973	$23,965	$30,994	$23,965
Total lifetime benefit in current dollars	$1,279,500	$1,113,165	$1,113,165	$1,279,500	$1,390,049	$1,338,285
Break Even Point						
Mr.	75	N/A	N/A	75	78	77
Mrs.	75	N/A	N/A	75	78	77

*This is a hypothetical example and is for illustrative purposes only. No specific investments were used in this example. Actual results will vary. Past performance does not guarantee future results.



Investment Management in Retirement "I don't want to go back to work!"

- Key Considerations for Investing your Money
  - Income Need – How much money do you need for your expenses?
  - Time Horizon – When do you need the money and how much?
  - Taxes – What is your tax situation and what do you expect in the future?
  - Unique/Other – Pension, Inheritance, Large Future Expense, etc.



Investment Management in Retirement

- It can be helpful to think in terms of “buckets”

Now 0-6 Months	Short Term 6 Months – 4 Years	Medium Term 5 – 8 Years	Long Term 9+ Years
Includes: Savings Accounts Money Markets CDs	Includes: CDs Bonds Small Exposure to Stocks	Includes: Mix of Stocks and Bonds	Includes: Primarily Stocks

Safe Distribution in Retirement

Taking into account your retirement income sources (Social Security, Pension Income) and investments we can solve for an ideal mix of investments to meet your investment goals.

Results	Current Scenario	
	Average Return	Bad Timing
Estimated % of Goals Funded	100%	98%
Likelihood of Funding All Goals	80%	

Your Confidence Zone: 75% - 90%

	Current Scenario
Retirement	
Retirement Age	
Mr.	65 in 2023
Mrs.	65 in 2023
Planning Age	
Mr.	90 in 2048
Mrs.	90 in 2048
Goals	
Needs	
Retirement - Living Expense Both Retired	$92,000
Leave Bequest Starting	$250,000 End of Mrs.'s Plan

Source: MoneyGuidePro. This is a hypothetical example and is for illustrative purposes only. No specific investments were used in this example. Actual results will vary. Past performance does not guarantee future results.

Annuities

- An annuity is a financial product that pays out a fixed stream of payments to an individual. They were designed to be a means of securing steady cash flow for an individual during their retirement years and to alleviate fears of longevity risk or outliving one's assets.
- Annuity holders cannot outlive their income stream, which hedges longevity risk. The purchaser needs to understand that they are trading a liquid lump sum for a guaranteed series of cash flows.
- They can come in various types:
  - Immediate
  - Deferred
  - Fixed
  - Variable
  - Equity Indexed

Annuity Features

- Surrender period - the period during which an investor cannot withdraw the funds from the annuity instrument without paying a surrender charge or fee. This period can run into several years and incur a significant penalty if the invested amount is withdrawn before that period.
- Riders – optional contract features available for an additional cost
  - Guaranteed Minimum Income Benefit
  - Cost of Living Adjustment Rider
  - Guaranteed Minimum Death Benefit Rider
  - Long-term Care Rider
  - Disability Income Rider

Immediate Annuities (aka Single Premium Immediate Annuities or "SPIA's")

- An immediate annuity is an insurance product that gives the buyer a guaranteed stream of income in exchange for a lump sum of cash.
  - Ex: Joe, single, age 65 gives $100,000 to insurance company A. In return for his $100,000 lump sum, insurance company A guarantees to immediately begin paying Joe $500 per month for as long as Joe lives.
- "Simple", Not subject to market fluctuations
- Loss of access to principal

Deferred Annuities

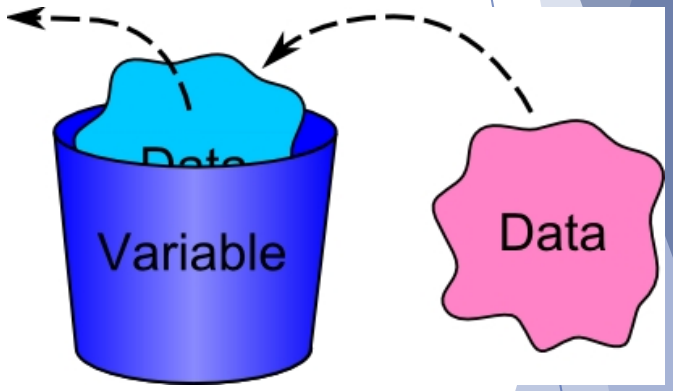
- Similar to immediate annuities except rather than payments starting immediately, payments begin at a future date (usually longer than one year).
  - Ex: Joe, single, age 65 gives $100,000 to insurance company A. In return for his $100,000 lump sum, insurance company A guarantees that in 10 years when Joe is age 75, they will begin paying him $1,200 per month for as long as he lives.
- Not subject to market fluctuations
- Loss of access to principal
- Delayed income stream

Fixed Annuities

- The annuity world's version of a bank certificate of deposit (CD). Pays a guaranteed rate of return for a fixed period of time.
  - Ex: Joe, single, age 65 buys a 7-year $100,000 fixed annuity from insurance company A. In return for Joe's $100,000 lump sum, insurance company A guarantees he will earn 2.85% on his $100,000 annually for 7 years. After those 7 years, Joe's balance has grown to $121,739.
- Not subject to market risk
- Often come with surrender charges
- Some include a "free" withdrawal allowance of 10%
- Potential loss of access to principal without paying penalties.

Variable Annuities

- A variable annuity is a contract sold by an insurance company which provides the holder with future payments based on the performance of the contract's underlying securities.
- Unlike fixed annuities, variable annuities do not guarantee a rate of return. You can choose to invest in professionally managed subaccounts consisting of various investment options (including stocks and bonds) that can offer potentially higher returns and the possibility of a larger income stream.
- While they can be more responsive to inflation than fixed annuities, it exposes them to market risk which could result in losses.



Variable Annuities

- While exposed to market risk, they are usually paired with an insurance component. Most contracts guarantee your initial investment will be paid out as a death benefit—meaning that, upon your death, even if your investments incur a loss, your named beneficiary gets back the original amount you invested (less any withdrawals you may have taken).
- Often come with surrender charges
- Offered with optional riders
- Can have high administrative fees

Equity-Indexed Annuities

- An equity-indexed annuity is a contract sold by an insurance company that is similar to a fixed annuity except the performance/rate of interest is tied to a specified stock market index (such as the S&P 500).
- Often have caps/participation rates that set upper limits on investment gains (i.e. with an 80% participation rate, if S&P goes up 15%, you are limited to a 12% increase).
- In return for accepting limited profits, investors receive protection against downside risk, usually a guarantee of at least breaking even each year.
- Some earn interest that does not compound
- Often come with surrender charges

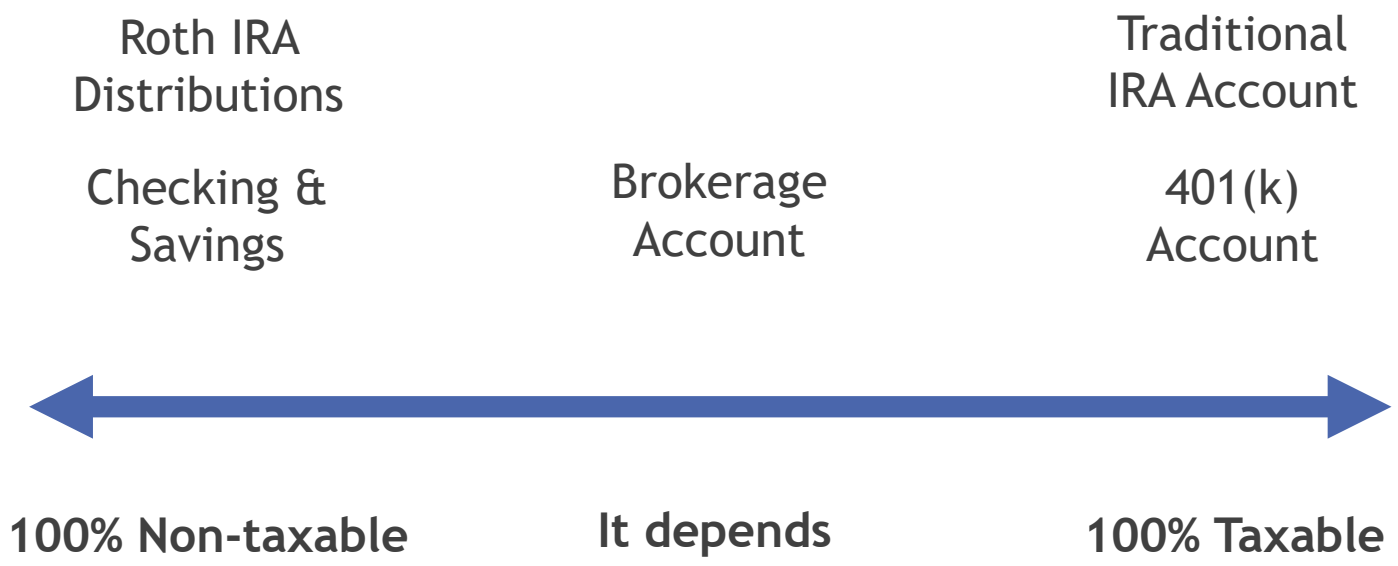
Taxes in Retirement – What Changes?

- While working:
  - Federal Income tax
  - PA State Income tax
  - Payroll taxes - 6.2% to Social Security, 1.45% to Medicare = 7.65% total
- When retired:
  - No more payroll taxes
  - PA State Income taxes typically reduced (retirement income is PA tax exempt)
  - Federal Income tax – dependent on other sources of income (not just a W-2 anymore)
    - Affects the cost of Marketplace health insurance premiums and Medicare Part B premiums

Source: https://www.irs.gov/taxtopics/tc751, https://www.revenue.pa.gov/FormsandPublications/FormsforIndividuals/PIT/Documents/rev-581.pdf

Taxes in Retirement – Living off your investments

- I need some money. Where do I get it from?



Taxes in Retirement – Tax Traps

- Taxable Social Security Benefits (0% to 85%)
- Brokerage Account Capital Gains (0% to 23.8%)
- Increased Medicare Part B Premiums ($135/month to $461/month)
- Loss of Marketplace health insurance premium credits (up to $30,000 for a married couple)

- Modified Adjusted Gross Income (MAGI)
  - Earnings – Wages, Self-Employment Income
  - Social Security Benefits (including non-taxable amounts)
  - Pension Income
  - Capital Gains / Interest / Dividends
  - Traditional IRA or 401(k) Income
  - Tax Exempt Income (Municipal Bonds)
  - Rental Income

Source: https://help.ihealthagents.com/hc/en-us/articles/223450228-What-is-Modified-Adjusted-Gross-Income-MAGI-

Last but not least… Are you ready to retire?

Are you ready to retire?

1. Importance of work to satisfaction

a. Very important: My job is central to my identity.
b. Fairly important: I like feeling useful.
c. It's something to do, but it's not the be-all and end-all.
d. It's not important at all.

Are you ready to retire?

2. Are there nonwork activities that give purpose?

a. There are not very many.

b. I have some hobbies and interests, but they've always been secondary to work.

c. I've got a fair amount going on.

d. I've got things going on that I love, and I wish I could spend more time on them.

Are you ready to retire?

3. What is life without work?

a. I find it hard to picture and an uncomfortable idea.
b. A break would be nice, but I don't have many plans.
c. I've got ideas I'd like to explore.
d. I've got very definite plans.

Are you ready to retire?

4. How will retirement affect relationships with family and friends?

a. I've always been too busy to spend much time with them; it'll be a new experience.

b. I haven't thought about it.

c. We have to readjust, but I hope we'll work it out.

d. We've talked about it, and we'll tackle the changes of retirement together.

Are you ready to retire?

5. How much energy do you have for work these days?

a. Bring it on—I can take it.
b. I'm not going to wear myself out, but I feel okay.
c. I'm losing steam a little.
d. I'm pretty close to having had enough.

Appendix – Tax Tables

2019 Federal Income Tax Rates

(Rate you would pay on distributions from pre-tax retirement accounts)

2019 tax brackets

RATE	SINGLE FILERS	MARRIED FILERS
10%	$0 – $9,700	$0 – $19,400
12%	$9,701 – $39,475	$19,401 – $78,950
22%	$39,476 – $84,200	$78,951 – $168,400
24%	$84,201 – $160,725	$168,401 – $321,450
32%	$160,726 – $204,100	$321,451 – $408,200
35%	$204,101 – $510,300	$408,201 – $612,350
37%	$510,301+	$612,351+
	Standard Deduction: $12,200 Personal Exemption: Eliminated	Standard Deduction: $24,400 Personal Exemption: Eliminated

Source: IRS

Insider Inc.

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