RETIREMENT PLANNING TRAPS AND TIPS

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1

2027 DEFERRAL LIMITS

- 401k limit increases to $25,500 ($1000 increase over 2026)
- 401k catchup increases to $8,500 (up $500)
- IRA remains at $7,500, with catchup remaining at $1,100
  - Phaseouts for IRA contributions increased slightly for 2027
- SIMPLE contributions increased to $17,500 (up $500)
  - Catch up contribution remains at $4000 ($5,250 if age 60-63)

2

SOCIAL SECURITY – WHEN TO START?

- Benefits can begin as early as 62 at reduced rate (up to 30% reduction)
- Full retirement age pays 100% of benefit (66-67, depending on birth date)
- Waiting after FRA up to age 70 increases benefit
- There is no "right" answer…it depends on your situation.

3

SOCIAL SECURITY – CLAIMING EARLY

- Money in hand now
- If you are no longer working, need the money, or have significantly shortened life expectancy, claiming early makes sense
- If you are still working, claiming early generally doesn't make sense due to reduction in benefit based on earnings

4

SOCIAL SECURITY – CLAIMING AT FRA

- If you are still working, once you reach full retirement age, there is no reduction in your SS benefits based on earned income
- Waiting until FRA can often increase your benefit simply by replacing higher earning years in your 35 year calculation (assuming you are earning more now than 35 years ago)
- At your death, spouse will receive larger survivor's benefit compared to if you had claimed earlier

5

SOCIAL SECURITY – CLAIMING AT 70

- For each month past FRA that you delay, your benefit will increase (8% per year)
- If you are in your highest earning years, your higher income will also increase your benefit
- No additional benefit increases past age 70, so no reason to claim any later
- If you expect a very long lifespan, and can afford it, waiting until 70 makes sense
- Benefits are actuarily determined to be the same lifetime amount regardless of your claiming age. So if you live exactly as long as the tables say, you will receive the same amount over your lifetime.

6

RETIREMENT INCOME PLANNING

- Determine your spending plan, and categorize by needs, wants and would love to have
- Best to have guaranteed income to meet your NEEDS
  - Social Security
  - Pensions
  - Annuities with guaranteed lifetime income
- Use investment income to meet your wants and luxuries
- If markets turn down, reduce spending on luxuries, but still live a good life!

7

BUCKET APPROACH

- 3 "buckets" of money
  - Short term – funds you will need in one year
    - Money market or similar funds
      - Won't grow much, but not subject to market fluctuations.
      - Primary goal is principal protection
  - Long term – funds you will need in 5+ years
    - Moderate to Aggressive growth (primarily stocks)
      - Primary goal is inflation protection
  - Middle bucket – funds for years 2-4

8

BUCKET APPROACH

- 3 "buckets" of money
  - Middle bucket – funds for years 2-4
    - Invest in conservative to moderate investments
    - Balanced approach – some growth, but less volatility than LT bucket
    - Consider hedged equity funds, buffered annuities, etc.
- Every year, refill the ST bucket. If the market is down, don't touch the LT bucket until market comes back up.

9

INCOME PRODUCING INVESTMENTS

- Historically, bonds provided a healthy income stream with much lower volatility than stocks. In recent years, this has not been the case.
- Bond funds (as compared to individual bonds) are now highly correlated to the stock market, so using them for volatility protection doesn't work like it did decades ago.
- Individual bonds, if held to maturity, can provide stable income
  - Watch out for call options

10

INCOME PRODUCING ASSETS

- Annuities
  - Can provide guaranteed lifetime income
  - Usually does not have much opportunity for rising income once payments begin
  - Many options available now that combine income guarantees with principal protection
  - All have a cost – some in the form of high fees, some with no fees, but caps on upside
  - Be aware of liquidity limitations (i.e., surrender charges). Some have surrender charges for as long as 15 years! (Most common is 5 or 7 years.)

11

INCOME PRODUCING ASSETS

- Dividend paying stocks
  - Look for companies with a history of raising dividends
  - Opportunity for principal growth while earning income
  - Consider funds that combine option techniques with stock holdings

12

MEDICARE ENROLLMENT

- 65 is basic enrollment age
  - Enrollment window at age 65 starts 3 months before birth month, includes your birth month, then 3 months after for total of 7 month window
  - General enrollment period every year from January 1 – March 31
  - Special enrollment period allows you to sign up without penalty if you or your spouse is still working and covered by a group health plan
    - Failure to enroll during initial window will result in lifetime penalties unless you qualify for a special enrollment period

13

MEDICARE ENROLLMENT

- Special enrollment period "gotchas"
  - COBRA coverage does NOT count as employer provided coverage
  - Small companies (20 or fewer employees) can (and often do) require you to switch to Medicare as your primary provider when you reach age 65, then their plan becomes the secondary payer. If your company has this plan, then you must enroll in Medicare at 65 to avoid penalties

14

MEDICARE PART A

- Medicare Part A covers hospitalization and up to 100 days in a skilled nursing facility following a hospitalization of at least 3 nights
  - Make sure you are ADMITTED, not "held for observation"
  - Also covers hospice and some limited amounts of physical or occupational therapy
- While it is not free, there is no premium (you paid for it through your payroll taxes)
- Many say sign up for Part A at 65, even if you are still working.
  - Not a good idea if you contribute to an HSA…as soon as you enroll, you can no longer contribute to an HSA

15

MEDICARE PARTS B AND D

- Medicare Part B covers doctor costs, including while hospitalized
- Part B monthly premiums start at 209.50 in 2027 (202.90 in 2026)
  - Enrolling late (without special enrollment period) results in a LIFETIME penalty of 10% per year for every year you are late.
  - Purpose is to discourage people from waiting until they are very sick to sign up.
- Part D covers prescription drugs
  - Late enrollment results in 1% per month of delay penalty (for life)
  - If you lose outside coverage, you only have 2 months to sign up (less than for Part B)

16

THE BIG PENALTY - IRMAA

- This is the additional tax that Medicare enrollees pay, based on income
- Part B premiums pay for approximately 25% of the cost of the insurance, with tax dollars covering the rest.
- Higher income earners pay more
  - Based on income from 2 years prior (2026 IRMMA based on 2024 return)
  - Single taxpayers earning more than $109k and MFJ earning more than 218K pay a surcharge
  - MFJ earning more that $342k will pay $527.50 for Part B (a surcharge of $325/month). For a married couple, that equates to $7800/year. At the top bracket, the surcharge is $487/month ($11,688) per year. Total cost of Part B at that bracket is 689.90/month per person (approximately $16,557 per year for a married couple.

17

THE BIG PENALTY - IRMAA

- Good news – the IRMAA surcharge resets every year
  - One big year (from sale of business, for example) will only result in big charges for one year.
- You can appeal the IRMAA surcharges if there is a qualifying life changing event
  - Work stoppage or reduction (i.e., retirement)
  - Marriage, divorce, or death of a spouse
  - Loss of income producing property
  - Loss or reduction of certain pension income

18

IRMAA PLANNING

- Careful planning may help avoid the largest IRMAA surcharges
  - Timing of sales of business, real estate, etc.
  - Roth conversions
  - If over age 70.5, consider using QCDs to reduce MAGI
  - Take lump sum payments in one year rather than spreading to concentrate income in one year (be sure to consider the impact on regular income tax of course!)
  - IRMAA calculation is based on Modified AGI…tax-free income on municipal bonds is added back

19

IRMAA PLANNING

- Married couples should consider if filing separately will reduce IRMAA
  - Works if one spouse has significantly higher income
  - Works if lower paid spouse has income less than $112k
  - If lower paid spouse income is over $112k but below $388k, IRMAA is 460.60 per month
    - Same as MFJ income above $424k
  - Do the math…there are limited situations where this may be the best option

20

OTHER HEALTH INSURANCE COSTS

- Parts A&B don't cover everything…most people also buy a "Medigap" policy.
- This pays for the co-insurance for Parts A&B
- If you have "original" Medicare, a Medigap policy is usually a good idea
- If you have part C instead of B (Medicare advantage) you don't need a Medigap policy, but be sure to know the limitations of those plans
- Part D is prescription coverage, and is also subject to IRMAA.

21

THE BOTTOM LINE

- Planning for retirement often only considers the accumulation period …how to save and invest to get to your number at retirement
- Planning how to spend is an entirely different animal!
- Usually takes one to two years in retirement to get a handle on what your "real spend" will be.
- Work with trusted advisors who are specialists, especially for health care plans

22