1820 Ridge Road, Suite 201
Homewood, IL 60430
(708) 922-9450
Bob@rs-abc.com
www.alliancebenefitconsultants.com

Bob Scott
Broker

Medicare Planning: Tips to Help Sidestep Surcharges

A Medicare participant who has a one-time spike in income could be surprised by a hefty premium surcharge known as the income-related monthly adjustment amount, or IRMAA, which is based on the taxpayer's modified adjusted gross income (MAGI) reported two years earlier and their tax filing status. (MAGI is adjusted gross income plus any tax-exempt interest income.)

IRMAA is calculated annually. Some high-income taxpayers could pay more than three times as much for their Medicare Part B and Part D benefits, costing them thousands of dollars in each year that surcharges apply.

Accounting for IRMAA

There are many reasons why your income may rise in one year and drop the next, even after you are retired. For instance, realizing capital gains on the sale of appreciated securities or real estate could result in surcharges two years later. Assuming your income drops again, the surcharge would be temporary, but you might want to keep IRMAA in mind when planning any strategy that might increase your MAGI beyond the next income threshold.

With the two-year delay, someone who lost a spouse or worked in a high-paying job before retirement might be subject to the surcharge while no longer having the income that triggered IRMAA. You can request that the Social Security Administration remove or reduce the surcharge if one or more of these life-changing events reduced your income.

- You married, divorced, or became widowed.
- You or your spouse stopped working or reduced your work hours.
- You or your spouse lost income-producing property because of a disaster or other event beyond your control.
- You or your spouse experienced a scheduled cessation, termination, or reorganization of an employer's pension plan.
- You or your spouse received a settlement because of an employer's closure, bankruptcy, or reorganization.

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Monthly Medicare premiums in 2024 (based on 2022 tax returns)

MAGI individuals	MAGI joint filers	Part B (with surcharge)	Part D
$103,000 or less	$206,000 or less	$174.70	Plan premium*
$103,001 to $129,000	$206,001 to $258,000	$244.60	Plan premium + $12.90
$129,001 to $161,000	$258,001 to $322,000	$349.40	Plan premium + $33.30
$161,001 to $193,000	$322,001 to $386,000	$454.20	Plan premium + $53.80
$193,001 to $500,000	$386,001 to $750,000	$559.00	Plan premium + $74.20
Over $500,000	Over $750,000	$594.00	Plan premium + $81.00

*In 2024, the average Part D monthly premium was $43 for stand-alone drug plans and $9 for Medicare Advantage plans.

Sources: Centers for Medicare & Medicaid Services, 2023; Kaiser Family Foundation, 2024

If you have any questions about the topics in this newsletter or about your financial future, call us. We are available to help.

Watch for These Hazards on the Road to Retirement

On the road to retirement, be on the lookout for hazards that can hamper your progress. Here are five potential risks that can slow you down.

Traveling aimlessly

Embarking on an adventure without a destination can be exciting, but not when it comes to retirement. Before starting any investing journey, the first step is setting a realistic goal. You'll need to consider a number of factors — your desired lifestyle, salary/income, health, future Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. Examining your personal situation both now and in the future will help you home in on a target.

While some people prefer to establish a lump-sum goal amount — for example, $1 million or more — others find a large number daunting. Another option is to focus on how much you might need on a monthly basis during retirement. Regardless of the approach taken, be sure to factor in inflation, which can place unexpected curves in your path.

Investing too aggressively...

You may also encounter potholes when trying to target an appropriate rate of return. Retirement investors aiming for the highest possible returns might want to overweight their portfolio in the most aggressive — and risky — investments available. Although it's generally wise to invest at least some of a retirement portfolio in higher-risk investments to help outpace inflation, the proportion and individual investment selections should be determined strategically. Investments seeking to achieve higher returns involve a higher degree of risk. Appropriate decisions will reflect your goal, your investment time horizon, and your general ability to withstand volatility.

...Or too conservatively

On the other hand, if you're afraid of losing any money at all, you might favor the most conservative investments, which strive to protect principal. Yet investing too conservatively can also be risky. If your portfolio does not earn enough, you may fall short of your goal and end up with a far different retirement lifestyle than you originally imagined.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Giving in to temptation

Most people experience an unplanned detour on the road to retirement — the need for a new car, an unexpected home repair, an unforeseen medical expense, or the opportunity to take a long, exotic vacation. During these times, your retirement portfolio may loom as a potential source of funding. But think twice before tapping these assets, particularly if the money is in a tax-deferred account such as an employer-sponsored plan or IRA. Consider that:

- Any dollars you remove from your portfolio will no longer be working for your future.
- In most cases, you will generally have to pay regular income taxes on amounts that represent tax-deferred investment dollars and earnings.
- If you're under age 59½, you may have to pay an additional penalty of 10% to 25%, depending on the type of retirement plan and other factors (some emergency exceptions apply — check with your plan or IRA administrator).

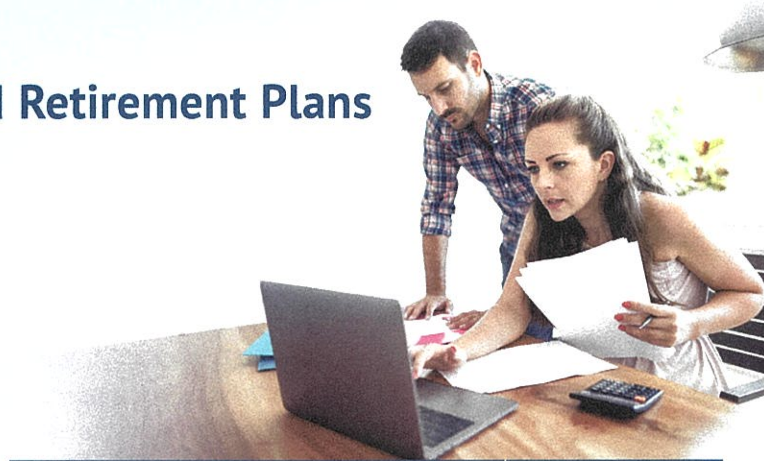
It's best to carefully consider all other options before using money earmarked for retirement.

Prioritizing college over retirement

Many well-meaning parents may feel that saving for their children's college education should be a higher priority than saving for their own retirement. "We can continue working as long as needed," or "our home will fund our retirement," are common beliefs. However, these can be very risky trains of thought. While no parent wants his or her children to take on a heavy debt burden to pay for education, loans are a common and realistic college-funding option — not so for retirement. If saving for both college and retirement seems impossible, a financial professional can help you explore a variety of tools and options to assist you in balancing both goals (however, there is no assurance that working with a financial professional will improve investment results).

Proceed with Caution

It's Complicated: Inheriting IRAs and Retirement Plans



The SECURE Act of 2019 dramatically changed the rules governing how IRA and retirement plan assets are distributed to beneficiaries. The new rules, which took effect for account owner deaths occurring in 2020 or later, are an alphabet soup of complicated requirements that could result in big tax bills for many beneficiaries.

RMDs and RBDs

IRA owners and, in most cases, retirement plan participants must start taking annual required minimum distributions (RMDs) from their non-Roth accounts by April 1 following the year in which they reach RMD age (see table). This is known as their required beginning date (RBD).

Likewise, beneficiaries must take RMDs from inherited accounts (including, in most cases, Roth accounts). The timing and amount of an individual beneficiary's RMDs depend on several factors, including the relationship of the beneficiary to the original account owner and whether the original owner had reached the RBD.

Three key points apply to both owners and beneficiaries: (1) individuals must pay income taxes on the taxable portion of any distribution, (2) the larger the RMD, the higher the potential tax burden, and (3) failing to take the required amount generally results in an additional excise tax.[1]

Date of birth	RMD age
Before July 1, 1949	**70½**
July 1, 1949, through 1950	**72**
1951 to 1959	**73**
1960 or later	**75**

The age that determines an account owner's RBD depends on the account owner's date of birth.

Spouse as sole beneficiary

Spouses who are sole beneficiaries have the most options for managing inherited accounts. By default, a surviving spouse beneficiary is treated as what's known as an eligible designated beneficiary (EDB) with certain advantages (see next section, "EDBs and DBs"). And if the deceased spouse died before the RBD, a surviving spouse EDB who is the sole owner can wait until the year the deceased would have reached RMD age to begin distributions.

Alternatively, a surviving spouse who is the sole owner can generally roll over the inherited account to their own account or elect to be treated as the account owner (rather than as an EDB). In these cases, the rules for account owners would apply. However, there is a potential drawback to this move: if the surviving spouse is younger than 59½, a 10% early distribution penalty may apply to subsequent withdrawals unless an exception applies.

EDBs and DBs

The SECURE Act separated other individual beneficiaries into two groups: EDBs and designated beneficiaries (DBs). EDBs are spouses and minor children of the deceased, those who are not more than 10 years younger than the deceased, and disabled and chronically ill individuals. DBs are essentially everyone else, including adult children and grandchildren.

EDBs have certain advantages over DBs. If the account owner dies before the RBD, an EDB is able to spread distributions over their own life expectancy. If the account owner dies on or after the RBD, an EDB may spread distributions over either their own life expectancy or that of the original account owner, whichever is more beneficial.[2]

By contrast, DBs are required to liquidate inherited assets within 10 years, which could result in unanticipated and hefty tax bills. If the account owner dies before the RBD, the beneficiary can leave the account intact until year 10. If the owner dies on or after the RBD, a DB must generally take annual RMDs based on their own life expectancy in years one through nine, then liquidate the account in year 10.

Other considerations

Work-sponsored retirement plans are not required to offer all distribution options; for example, an EDB may be required to follow the 10-year rule. However, both EDBs and DBs may roll eligible retirement plan assets into an inherited IRA, which may offer more options for managing RMDs.

This is just a broad overview of the complicated new rules as they apply to individual beneficiaries. If an account has multiple designated beneficiaries, or if a beneficiary is an entity such as a trust, charity, or estate, other rules apply. Beneficiaries should seek the assistance of an estate-planning attorney before making any decisions.

1) The IRS has waived this tax as it applies to the DB 10-year rule through 2024.
2) An inherited account must be liquidated 10 years after an EDB dies or a minor child EDB reaches age 21.

Retroactive Social Security Benefits: A Chance to Turn Back Time

Did you know that if you postpone claiming Social Security past your full retirement age, you have the option of receiving a lump-sum payment for up to six months of benefits when you finally apply?

Receiving retroactive benefits in a lump sum might be helpful if you face a change in health or need cash in an emergency. However, you'll want to think through the consequences, because taking an initial lump sum will reduce your monthly Social Security retirement benefit for the rest of your life.

For example, let's say your full retirement age is 67, and your full retirement benefit would be $2,400. You decide to wait to apply for Social Security. By waiting past full retirement age, you earn delayed retirement credits that will increase your benefit by 8% per year, up to age 70. You apply for retirement benefits at age 67 and 6 months. Your benefit is now $2,496, due to the delayed retirement credits you've earned, 4% higher than at age 67.

If you opt to take benefits retroactively in a lump sum, your official Social Security start date and the amount of your monthly benefit will be rolled back by six months, and you will lose six months of delayed retirement credits. Your lump-sum benefit will be based on your age 67 benefit, so you will receive $14,400 ($2,400 x 6) — a sizeable amount. The downside is that your ongoing monthly benefits will be permanently reduced.

In this example, because you received a lump-sum payment for six months of benefits, your ongoing monthly benefit will be 4% lower for the rest of your life.

Factors to consider when deciding if you should take retroactive benefits include your life expectancy and whether you have a greater need for immediate funds or ongoing retirement income. If you're married, your decision might affect future benefits paid to your surviving spouse, because these will be based on what you were receiving. There may also be tax consequences.

There's no single "right" time to claim Social Security retirement benefits. Knowing that you have the option to claim retroactive benefits any time after you reach full retirement age and before age 70 might help lessen the pressure of trying to perfectly time your decision.

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Timing Roth conversions

If you have 401(k) and/or IRA assets, it's important to consider how taxable distributions, including Roth conversions, could trigger surcharges or help you avoid them in the future.

Qualified distributions from Roth accounts are tax-free if certain conditions are met. Thus, the conventional wisdom is that Roth conversions are advantageous when the taxpayer's current tax rate is lower than the expected rate on taxable withdrawals that would be taken in retirement. That situation is less common for highly paid employees near the end of their careers, but there are other good reasons to consider Roth conversions.

For one, your income might turn out to be higher than expected later in retirement, especially if you must take sizeable required minimum distributions (RMDs) from taxable retirement accounts after reaching age 73 (or after inheriting such accounts). It's also possible that tax rates will be higher in the future than they are today.

Roth accounts aren't subject to RMDs during the owner's lifetime. Thus, executing Roth conversions strategically could create a pool of tax-free funds to draw from as needed in retirement, while helping to reduce the impact of RMDs on Medicare premiums.

Distributions from traditional IRAs and traditional employer-sponsored retirement plans, and the earnings portion of nonqualified distributions from Roth IRAs and designated Roth accounts, are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% penalty, with some exceptions. To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet the appropriate five-year holding requirement, and the distribution must take place after age 59½, unless another exception applies.

Ed Slott is a professional speaker and the creator of several public television specials, including "Retire Safe & Secure! with Ed Slott." He is the author of *The Retirement Savings Time Bomb...And How to Defuse It* and many other books about IRA planning.

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