Financial Intelligence

August 2023

Peak Asset Firm Update

By Tara Hefty, CFA, FRM

Over the last several years, Peak has been actively recruiting and developing talented professionals to help support and grow our business. It is important to us that you are familiar with all of our team members, but I wanted highlight some of our newer members who are actively supporting our clients: Johnny Russell, CFA, Bethany Aylor, CEP, CFP®, Hope Albu, CFP®, EA, Sophie Berglund, Jodee Aylor, and Natalie Hanson.

Johnny Russell, CFA has been with Peak since 2020 as an Associate Advisor. Johnny has been instrumental in streamlining Peak's technology offerings, alongside his other many roles including assisting with investment management and operations. Bethany Aylor, CEP, CFP® joined Peak in 2020 from previous positions at Schwab and J.P. Morgan Chase. Bethany is an Associate Advisor and her responsibilities include helping with portfolio allocation, marketing and supporting the financial planning team. Hope Albu, CFP®, EA joined Peak in 2021 and works alongside Brent Yanagida, CFP®, EA in the development of financial and tax plans. Hope brings over a decade of tax experience to Peak. Sophie Berglund, who joins us from Mercer Advisors, came to Peak in 2022. Sophie works as an Associate Advisor and her responsibilities include trading, investment analysis, marketing, and operations. Jodee Aylor joined in 2022 as a Client Service Associate bringing with her many years of administrative experience. Finally, our newest addition, Natalie Hanson joined Peak earlier this year as a Client Service Associate with over a decade of industry experience.

All of us at Peak are committed to increasing the depth and breadth of services offered to you, without sacrificing the personalization that you expect. Our philosophy remains the same: we simplify our clients' financial lives by implementing a customized plan, focused on the three distinct components of structure, strategy, and discipline. We appreciate the trust that you put in Peak and we will strive to continue to earn that trust in the future. Thank you all for your past and continuing support.

Retirement and Tax Planning Considerations Starting in Early 60s: A Real-Life Snapshot

By Brent Yanagida, CFP®, EA

Individuals and families considering retirement in their 60s often have many planning decisions that need to be made over a short timeframe so that financial goals have the greatest possibility of being met. This article shows how an actual married couple (names have been changed) in their 60s navigated their way through decisions and processes regarding Medicare, health insurance, Social Security, retirement savings, college funding, and tax planning. This planning snapshot is unique, and as such, your planning decisions and experiences may be different; however, many topics covered are often relevant at some point in everyone's life. More detail on presented topics are available through referenced weblinks that are active when accessing this newsletter via Peak's website. We also invite you to share our posted newsletters with family and friends that might benefit from the financial planning topics presented.

Case background

Jack and Jill Smith are married and have lived in Boulder County, Colorado for over 10 years. Jack turned 65 in Oct. 2022 and Jill turned 61 in Feb. 2023. They have one child, Jimmy, who has recently started college. Jack works as an employee at a local company with less than 20 employees and he and his family have been covered by a group health insurance plan through his employer. Jack also works part time as an independent contractor through his

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business set up as a sole proprietorship. Jill works part time in her own business set up as a sole proprietorship. Both have retirement and taxable accounts to use for planned retirement expenses, with Jack also having access to two pension plans.

Retirement planning timeline. After reviewing their retirement plan developed with Peak's team, Jack decides in early summer of 2022 that he is in good position to reduce his work schedule at his current firm when he turns 65 and is eligible for Medicare and maximum pension plan distributions. Jack plans to continue working part time at the same firm until age 67 and possibly until age 70 when his Social Security benefit would be maximized. Jill plans to continue to work part time in her business during the same time frame as well. Based on life expectancies and retirement projections, Jack elects to take his pensions Nov 1, 2022 (maximized at age 65) with a 50% survivor option such that Jill will continue receiving a monthly benefit if she survives Jack.

Medicare decisions and timeline

With Medicare and related supplemental plans being the primary programs to cover health care costs for most individuals reaching 65, it was important for Jack to sort through all his options several months before turning 65.

Although workers (and their covered spouses) with "creditable" group health insurance and prescription drug coverage may have the option to delay enrollment in Medicare parts A, B, and D past 65[i], Jack could not delay enrollment even if continuing group coverage as he worked at a firm with less than 20 employees, where by insurer rule, Medicare becomes the primary insurer, and the employer-sponsored plan becomes secondary. To avoid potential lifetime late enrollment penalties and possible lapses in coverage he needed to initially sign up for Medicare part A (hospital insurance with no premiums for most) and part B (medical insurance with variable premiums for all), followed by enrollment in a Part D (prescription drug) plan. Jack had an "Initial Enrollment" window of 7 months to sign up for parts A and B, starting 3 months prior to the month he turns 65. Here is the timeline of the application process and related planning decisions surrounding Medicare for Jack:

- In July, the first month of the initial enrollment period, Jack applied online for Medicare parts A and B via SSA.gov through his "my Social Security" account. He received a confirmation letter within a month indicating an Oct 1 start (Medicare always starts on the 1st day of the month) and his Medicare card was received a couple of weeks later.

- In August he received a letter indicating that his Medicare premiums would include an Income-Related Monthly Adjustment Amount (IRMAA) increase of $170.10 (for part B) and $32.10 (for Part D) based on the Smith's 2020 tax return Modified Adjusted Gross Income (MAGI) which includes their Adjusted Gross Income (AGI) + tax exempt income.

- With tax professional guidance and use of Peak's tax planning projections for 2022 and 2023, which included key AGI reducing strategies explained later, Jack appeals the IRMAA by submitting form SSA-44 (Medicare Income-Related Monthly Adjustment Amount – Life-Changing event)[ii] based on the fact that their joint 2022 MAGI would fall to a much lower bracket than in 2020 due to the qualifying "reduced work hours," which also happened to correspond with a high capital gain event that year. If Jill was 65 or turning 65 in 2022, she would have also been hit with the same IRMAA increases such that she would need to file a separate form for herself using the same qualifying event (even if it applied to her husband only) and joint income numbers, justifying lower premiums for herself as well. For more information on planning around Medicare premiums, see our March 2020 Financial Intelligence newsletter posted to the Peakam.com website.

- A month later Jack received a letter stating that his appeal was approved and that there would be no IRMAA based on the expected 2022 MAGI that was submitted. Another follow-up letter indicated that the new Part B premiums would be the lowest possible $170.10/mo. instead of another prior notice indicating a $340.20/mo. total premium.

- In late November Jack received notice regarding 2023 Part B premiums being $164.90/mo. with NO IRMAA for parts B or D. This was based on Smith's 2021 tax return MAGI being below $194,000. If their 2021 MAGI would have been higher to generate IRMAA for 2023, then another SSA-44 form would have likely been pursued showing a lower MAGI expectation for 2023 based on the same work reduction in 2022.

Additional coverage upon signing up for Medicare parts A and B. With Medicare parts A and B having major gaps (e.g., deductibles, co-pays, co-insurance, excess charges) in coverage, it was very important for Jack to either sign up for a "Medigap" supplemental policy and a separate Part D prescription drug policy, or with a Medicare Advantage (often called part C) plan which would include a Part D prescription drug plan. Jack had access to a "group" Medicare Advantage plan through work among his choices such that he could either stay with this option or go the Medigap route. After his own research and the help of a recommended independent health insurance agent (see appendix for referrals) he elected to enroll in a Medigap Plan G policy with United Healthcare by AARP soon after being enrolled in Part B, with such Medigap plan enrollment having to be done within 6 months of plan B enrollment to guarantee maximum coverage and lowest premium cost (no underwriting required). He enrolled through the help of his independent agent rather than shopping/enrolling through the Medicare website[iii] or working directly with a specific insurance company, as premium rates looked to be the same no matter the source. The main reasons for choosing the specific Medigap plan and sponsoring insurance company were the following:

- The G plan is the most comprehensive plan currently available across Medigap plans (unless already on an F plan) and is recommended for most applicants.

- The $138/mo. premium was very competitive as compared to other G plan policies from other companies. Even though Medicare Advantage plans would have had smaller premiums with some additional coverages over most Medigap policies for dental, vision, and hearing expenses, Advantage plans can be more expensive in the long run when considering co-pays and if Jack would ever want to go out of network for healthcare services.

- Jack desired the long-term flexibility to see any doctor (no in-network required) and/or specialist (no referral needed) across the country that accepts Medicare. He specifically reached out to one specialist that he might use in the future that confirmed Medicare coverage through supplemental programs such as United Healthcare, but not having expenses covered through the most popular Advantage plans in the area.

- The Smiths may spend significant time out of state in the future which often benefits a Medigap plan over an Advantage plan where a local network may need to be used for most costs to be covered.

- Jack could change his mind at any time and switch to an Advantage plan without underwriting; however, changing from an Advantage plan to a Medigap plan would likely require underwriting where certain coverages could be denied and/or premiums could be higher than standard rates.

- United Healthcare policies included free fitness center memberships through their exclusive “Renew Active” fitness program at all desired club locations near Jack’s work and home. This included membership at Life Time fitness clubs with the local club normally costing $169/mo. for seniors. Note: Most Advantage plans along with some Medigap plans offer health club memberships through Silver Sneakers or Silver&Fit, but may not include memberships at high end clubs such as Life Time.

In consultation with the same independent agent, Jack signed up for a Medicare part D Prescription Drug policy with WellCare at a very low $3.50/mo. This choice was based on having only one prescription at the time with such prescription being almost completely covered at the local Walgreens pharmacies. Part D Prescription drug policies can easily be changed during an annual enrollment window if prescriptions change, resulting in excess charges. To compare costs across available policies with prescriptions taken, refer to the same Medicare website if shopping on your own for supplemental and Advantage plans. Note: Having a Medicare.gov log-in is suggested for tracking or changing coverages, for having additional payment options for part B and any part B/D IRMAA premiums, and to see a history of premiums paid for possible deduction purposes.

Health Insurance for the rest of the family

With Jack losing his company coverage, Jill (not yet eligible for Medicare) and Jimmy had to either acquire health insurance on their own or, for up to 18 months, stay with the prior group coverage through federal COBRA laws or Colorado’s State Continuation laws. With less than 20 employees at the firm, the State Continuation laws applied and with the help of Jack’s HR person, the same group coverage was continued for Jill and Jimmy. Premiums specific to Jill and Jimmy would now be paid out of pocket versus a pre-tax deduction through Jack’s paycheck. The decision to continue to stay with the same group coverage for at least the rest of the year was based on the following:

- One of the deductibles in the year had been reached and expenses beyond the deductible would only be covered if staying on the same group plan for the rest of the year.

- The high deductible plan would continue to allow for Health Savings Account (HSA) contributions so long as Jill was the owner of an HSA account.

- Premiums were competitive with individual HSA qualified plans, and the Smiths would not initially qualify for a government sponsored premium adjustment (subsidy) based on expected joint Modified Adjusted Gross Income (AGI, plus tax exempt income, plus non-taxable Social Security benefits) input into an on-line calculator.[iv]

- Jill and Jimmy plan to wait until the end of 2023 to switch to a non-group HSA qualified high deductible policy, working with the same agent that Jack did.

Health Savings Account (HSA) decisions

- The family will continue to maximize this highly tax advantaged savings program by staying on an HSA qualified high deductible plan in which contributions reduce MAGI/ taxable income and qualified withdrawals come out tax free. Jack can only contribute to his HSA account for the months not on Medicare. Based on the full year 2022 maximum family coverage of $8,300 for being 55 or older, Jack contributes the prorated $6,225 maximum based on 9/12s of the year not on Medicare. If his employer had contributed to the plan, his contribution would have to be reduced by the company contribution. For other workers that can delay signing up for Medicare past 65 (e.g., workers staying on creditable company coverage with a firm having 20 or more employees), Part A is usually backdated 6 months if an enrollee is at least 6 months past age 65, and HSA contributions can NOT be made for those backdated months.

- Jill opens an HSA account for herself based on still being on the HSA qualified group plan and contributes the portion of the $8,300 family maximum not completed in 2022, which was $2,075. Jill decided to open a Fidelity HSA account based on Morningstar's most recent ratings article[v], and knowing that every contribution, by default, goes into a money market fund paying dividends monthly at a 4%+ annualized rate at time of this writing. In early 2023, Jill contributes the family maximum, including catch-up, of $8,750 based on the assumption that they will stay on an HSA qualified plan for the entire year.

- Distributions for qualified current and/or past documented health care expenses can come out tax free. Although HSA accounts cannot be jointly owned or transferred between spouses, both spouses, using separate debit cards, can withdraw funds. An account can be continued and used for a spousal beneficiary; however, an account cannot be continued if passed on to non-spouse beneficiaries and any remaining balances are taxed upon distribution. The Smiths will take qualified withdrawals for the family's medical expenses from Jack's account first and then when exhausted and closed out, switch to Jill's plan for qualified withdrawals.

Social Security planning

With Jack eligible for Social Security and Jill able to collect soon at age 62, the following considerations and decisions were made:

- Life expectancies of 88 (Jack) and 89 (Jill) were used after running life expectancy calculators offered by Peak and an AARP recommended resource[vi] based on current age and health.

- After tapping into several resources, including a Peak software tool to show different claiming scenarios based on life expectancies chosen, the Smiths determined that for now, Jack will likely wait until age 70 to collect his maximum benefit and for Jill to either collect at her Full Retirement Age (FRA) of 67 or take earlier at 65 when she files for Medicare. The 70/67 filing strategy maximizes Jack's benefit and maximizes Jill's spousal and survivor benefits, such that Total Lifetime Benefits in current dollars is maximized among the scenarios shown below. The "Custom Strategy" of Jack filing at 70 and Jill at 65 shows that Total Lifetime Benefits in current dollars for this scenario is very close to the Maximized Strategy.

- Prior to reaching FRA, social security benefits, if claimed before such age, could be reduced based on working income above a certain level. Assuming a certain income, Jack's SS benefit would indeed be reduced as shown in the 2nd scenario below that would have him collecting at age 65.

Social Security Analysis

	Custom Strategy	As Soon as Possible	At Retire	At FRA	At age 70	Maximized Strategy
Male start age	70	65	67	66	70	70
Female start age	65	62	62	67	70	67
First year benefit in current dollars						
Male	$48,783	$8,902	$39,636	$38,112	$48,783	$48,783
Female	$16,311	$13,033	$13,033	$19,056	$19,056	$19,056
Total combined lifetime benefit in current dollars						
	$1,513,186	$1,284,522	$1,383,519	$1,372,032	$1,467,312	**$1,524,480**

Retirement savings planning

- With Jack having enough working income, he will continue to maximize 401k employee deductible contributions (e.g., $30,000 in 2023 for being over age 50) through his firm's payroll, with such contributions reducing AGI/taxable income, and helping to keep Medicare premiums at the lowest level.

- Jack, also having his own sole proprietorship income, will also maximize contributions to a Solo 401k set up for his own business, reducing AGI/taxable income. Since he has maximized employee contributions with his other 401K, he can only make an employer (profit sharing) contribution as employee contributions across multiple 401(k)s are aggregated for purposes of staying within the employee maximum. Jack used one of several calculators on-line to determine his maximum profit-sharing contribution.[vii]

- As a regulatory note, if Jack's Solo 401k balance at the end of any year exceeds $250,000, he will need to file Form 5500-EZ[viii] to the IRS by July 31 of the following year. Upon full retirement, Jack plans to rollover his 401k to his IRA and a final form 5500-EZ is required to be filed by the same July 31 due date after the end of the year no matter what the balance may be.

- With the guidance from their tax professional and a projection from Peak's tax planning tool showing the following allowed contributions for a married couple, some early contribution decisions were made for 2022 and will likely be done in 2023. In 2022 Jack contributed the maximum $7K to his Roth IRA and Jill, among her two IRA contribution choices, contributed the maximum $7K to her traditional IRA as a Non-Covered Spouse.

MODIFIED ADJUSTED GROSS INCOME TIERS (for 2022)

Planning Opportunity Limits	Over/Under?
Roth IRA Contribution $204k - $214k	Under
American Opportunity Credit $160k-$180k	Under
IRA Contribution - Covered Spouse $109k-$129k	Over
IRA Contribution- Non-Covered Spouse $204k-$214k	Under

- While working, the Smiths will also look for any opportunity to continue contributing to a taxable Schwab investment account, especially since they are currently planning to "self-insure" against the possibility of long-term care expenses, which are essentially not covered by Medicare or supplemental policies.

College funding decisions

As discussed on page 3 of our previous Financial Intelligence newsletter posted on our website, a new law via the SECURE Act 2 regarding 529 college savings plans makes it possible starting in 2024 to possibly rollover certain funds to a beneficiary Roth IRA account, which could avoid penalties and taxes if all account withdrawals aren't used for qualified education costs. In this case it was also determined (see allowed contributions above) that the Smiths would certainly qualify for the American Opportunity Credit[ix] in 2022. When funding their son's college education costs for fall semester 2022, they made sure that $2,000 of his tuition cost was paid out of pocket and not withdrawn from the 529 plan that they have been contributing to for a good number of years. This allowed credit ended up reducing their 2022 federal taxes by the same $2,000, which is a better tax saving strategy than any benefit that the 529 plan could provide. A similar strategy will likely continue in future years and additional contributions to a 529 plan may be considered depending on anticipated future college expenses.

Property tax adjustment for seniors in Colorado

For any homeowner having reached the age of 65 in Colorado and having lived in one such property as a primary residence for over 10 years, a Senior Homestead Property Tax Exemption[x] should be pursued to save on property taxes of around $600/year for most applicants. With Jack being 65 and living in the same property owned jointly (either spouse could have owned individually as well) since January 1, 2013, he was able to submit a "Short Form" to have 50% of their first $200,000 in actual value exempted from property tax assessment. This application, being submitted before July 15, 2023, will be in effect for the 2023 tax year (payable in 2024) and for every year thereafter unless certain conditions change. Every Colorado county website (typically via Assessor weblinks) should provide similar information and application forms to pursue this valuable property tax exemption.

Other tax planning strategies over the long-term

- If Jack and Jill have enough self-employed income, they will most likely be able to deduct their individual health insurance and Medicare premiums (Parts B, C, D, Medigap) as a Self-Employed health insurance deduction, which reduces AGI and taxable income.

- Depending on when Jack and Jill fully retire, there will likely be an opportunity for either or both to do additional IRA to Roth IRA conversions while in a low tax bracket. This will be possible since they can tap their taxable savings/investment accounts for cash flow needs that do not generate taxable income upon distribution.

- The Smiths will continue to support charitable causes through strategic contributions to their Schwab Donor Advised Fund until Jack must take required minimum distributions (RMDs) from his traditional IRA/401k accounts at age 73, based on recent tax laws that raised RMD ages for certain individuals. At that time Jack will start doing qualified charitable distributions (QCDs) from his traditional IRA account to reduce AGI and maximize tax savings.

- Through Peak's support, the Smith's will make strategic ongoing investment and withdrawal decisions across their different accounts to maximize long-term tax savings and most importantly, meet their short and long-term financial goals.

Appendix:

Suggested independent Medicare/health insurance agents based in Colorado:

Medicare Overview and Local Resource 2023.pdf

1. Allen McGirl

- 303-789-3310;
- Located in Englewood; he is also licensed in AZ, FL, GA, IL, KS, MI, MN, MO, NM, NV, OH, OR, PA, SC, SD, TN, TX, UT, WA, WI, WY

2. Joni (pronounced John E) Reents:

- 303-756-2663;
- Located in Broomfield/Northglenn; she is also licensed in NE, MO, FL

[i] https://www.medicare.gov/basics/get-started-with-medicare/medicare-basics/working-past-65

[ii] https://www.ssa.gov/medicare/lower-irmaa

[iii] https://www.medicare.gov/plan-compare/#/?lang=en&year=2023

[iv] https://www.kff.org/interactive/subsidy-calculator/

[v] https://www.morningstar.com/specials/the-best-hsa-providers-of-2022

[vi] https://www.longevityillustrator.org/

[vii] https://www.calcxml.com/do/qua12?lang=en

[viii] https://thecollegeinvestor.com/37648/how-to-fill-out-form-5500-ez/

[ix] https://www.irs.gov/credits-deductions/individuals/aotc

[x] https://bouldercounty.gov/property-and-land/assessor/senior-exemption/

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