

Money Saving Strategies during a Career Transition: Health Insurance, Taxes, Etc...

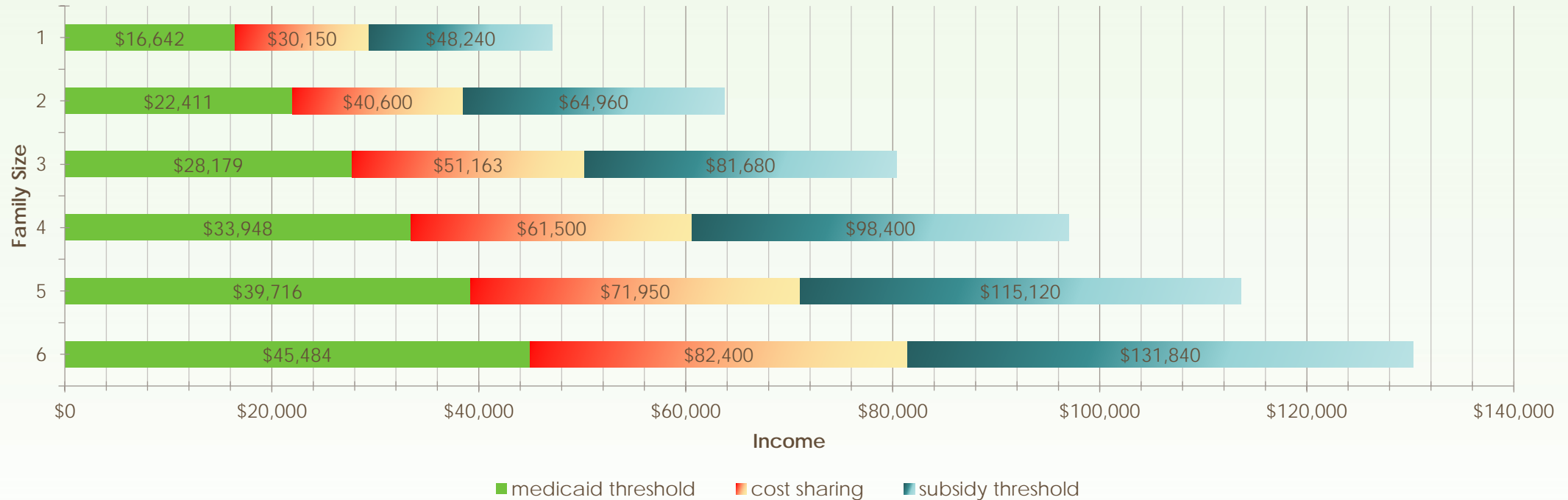
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PRINCIPAL, WJL FINANCIAL ADVISORS, LLC

Agenda

- Medical
- Taxes
 - Deduction for Job Hunting Expenses
 - Tax Credits
 - Strategies to Defer/Accelerate Income and Deductions
- Unemployment NJ
- 401K/403B Rollovers
- Retirement Plan Withdrawals
- Managing Debt
- College
- Investment Fees
- Social Security Timing

ACA Medicaid, Cost Sharing & Subsidy MAGI Thresholds



- Premium subsidies are tax credits – True up occurs when you complete end of year tax return
- AGI determines subsidy – documentation for estimate may be required
- Cost sharing subsidy only available on Silver plans
- Consider total costs (deductibles, copays, premiums etc.) before switching plans
- Open enrollment Nov 1 – Dec 15 for upcoming year

Other Medical

- The IRS allows a once in a lifetime transfer from an IRA to a HSA (up to \$3,450 for an individual or \$6,900 for a family in 2018)*
- Withdrawals from 401K or IRA not subject to 10% penalty if used for medical expenses in excess of 10% of modified adjusted gross income
- Withdrawals from an IRA (not 401K) used to pay medical insurance premiums not subject to 10% penalty if you have been collecting unemployment for at least twelve consecutive weeks.

*An additional \$1,000 annual catch up contribution to an HSA is allowed for participants age 55 and over.

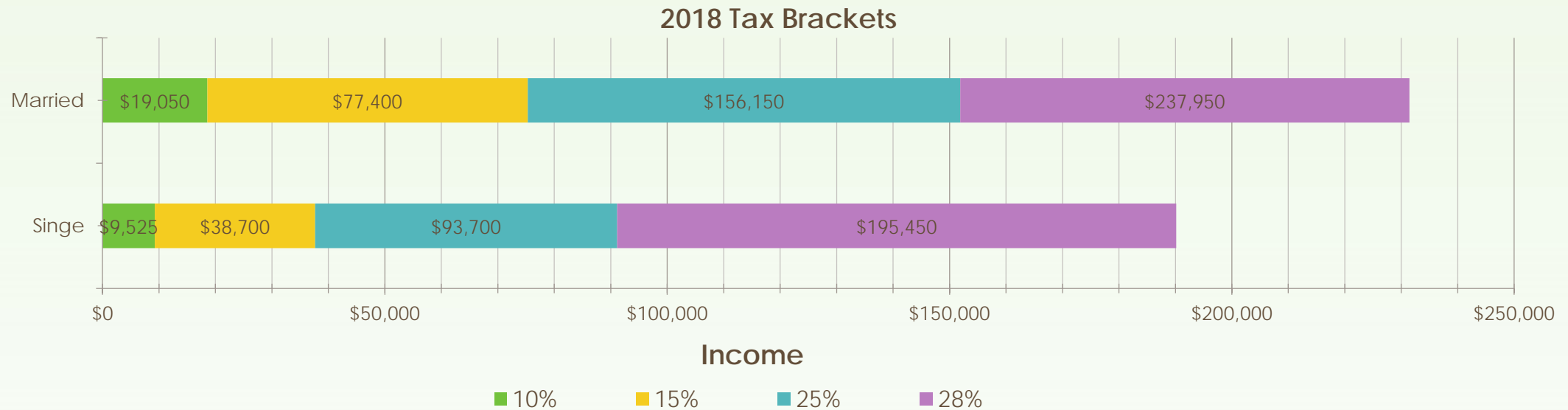
Taxes - Deduction for Job Hunting Expenses

- Miscellaneous deduction on Schedule A (subject to 2% of AGI limitation).
- Must be related to search for a position in **current** occupation.
- Allowable expenses
 - Resume prep and mailing
 - Travel expenses including mileage
 - Employment & Outplacement Agency Fees
 - Career coaches

Taxes – Credits You May Become Eligible For

- Earned income credit
 - Unemployment compensation does not count as income when determining eligibility for EIC.
- Child Tax Credit
- American Opportunity Credit
- Lifetime Learning Credit
- Tuition & Fees Deduction
- Medical Expenses (including COBRA)

Taxes – Brackets for Income and Capital Gains



2018 Long Term Capital Gains Rates

Tax Bracket	Long Term Capital Gains Rate
Up to 15%	0%
25% to 35%	15%
39.6%	20%

Taxes – Strategies to Defer Income/Accelerate Deductions (expect to be in higher tax bracket in current year)

- Prepay your January mortgage payment to increase your mortgage interest deduction
- Make additional contributions to your tax deferred investment accounts (401K, IRA, etc.)
- Delay deferred compensation to following year if possible
- Pay estimated state taxes in December instead of January
- Prepay Real Estate taxes
- Sell investments at a loss (up to \$3,000 can be recognized in a single year) and use proceeds to purchase a similar (but not identical) investment to avoid a wash sale

Taxes – Strategies to Accelerate Income/Defer Deductions (expect to be in a lower tax bracket in current year)

- Take Roth conversions on an IRA up to an amount that will “fill up” the lower tax bracket
- Sell investments at a gain to lock in a lower capital gains rate. To the extent you are in the 15% tax bracket, your long term capital gains rate will be 0%.
- If over 59 ½, withdraw money from your IRA (or under 59 ½ if you qualify for one of the exceptions) and pay taxes at the lower rate. You can still contribute that year.
- If you separate from your company at age 55 or over, withdraw money from your 401K and pay taxes at the lower rate without paying the 10% penalty (this works for a 401K but not an IRA).
- Do not pay your quarterly estimated state tax payment until January.
- Defer your Real Estate tax payment until January if possible

Unemployment NJ

- Unemployment can be extended up to 26 additional weeks if enrolled in an approved training program. Grants available up to \$4,000 for cost of training.
- Weekly unemployment is reduced to the extent part time earnings exceed 20% of your weekly benefit. Overall benefits (60% of average weekly earnings during base year x 26 weeks) are not reduced but would spread over more weeks. Must still be actively searching for full time work.

Should I Rollover my 401K/403B?

Advantages of Keeping 401K/403B

- Availability of Loans
- No 10% penalty for withdrawals if you terminate employment after age 55 (must be 59 ½ for IRA withdrawals to be penalty free with a few exceptions)

Advantages of IRA Rollover

- No 10% penalty for withdrawals for first time home buyers (up to \$10,000)
- No 10% penalty for withdrawals for qualified higher education expenses
- No 10% penalty for withdrawals for to pay for medical insurance if you have been collecting unemployment for at least twelve consecutive weeks.
- Much broader investment options
- Availability of Roth conversions

Consider a Partial Rollover to New 401K and Partial Rollover to IRA

Retirement Plan Withdrawals

- Withdrawals from a traditional IRA/401K/403B are generally fully taxable since those contributions were made pre-tax.
- Because Roth Contributions (and conversions) are made with after tax dollars you can withdraw those contributions without paying any taxes as long as Roth account has been in existence for five years (or the specific conversion was made at least five years ago).

Exceptions to 10% Penalty (if taken before 59 ½)

- Periodic equal payments (must continue for at least five years or age 59 ½).
- Medical expenses in excess of 10% of adjusted gross income
- Qualified higher education expenses
- Medical insurance if you collected unemployment for at least 12 consecutive weeks.
- 401K/403B separation from service age 55
- First home purchase (up to \$10,000)

If You are Forced to Take on Debt

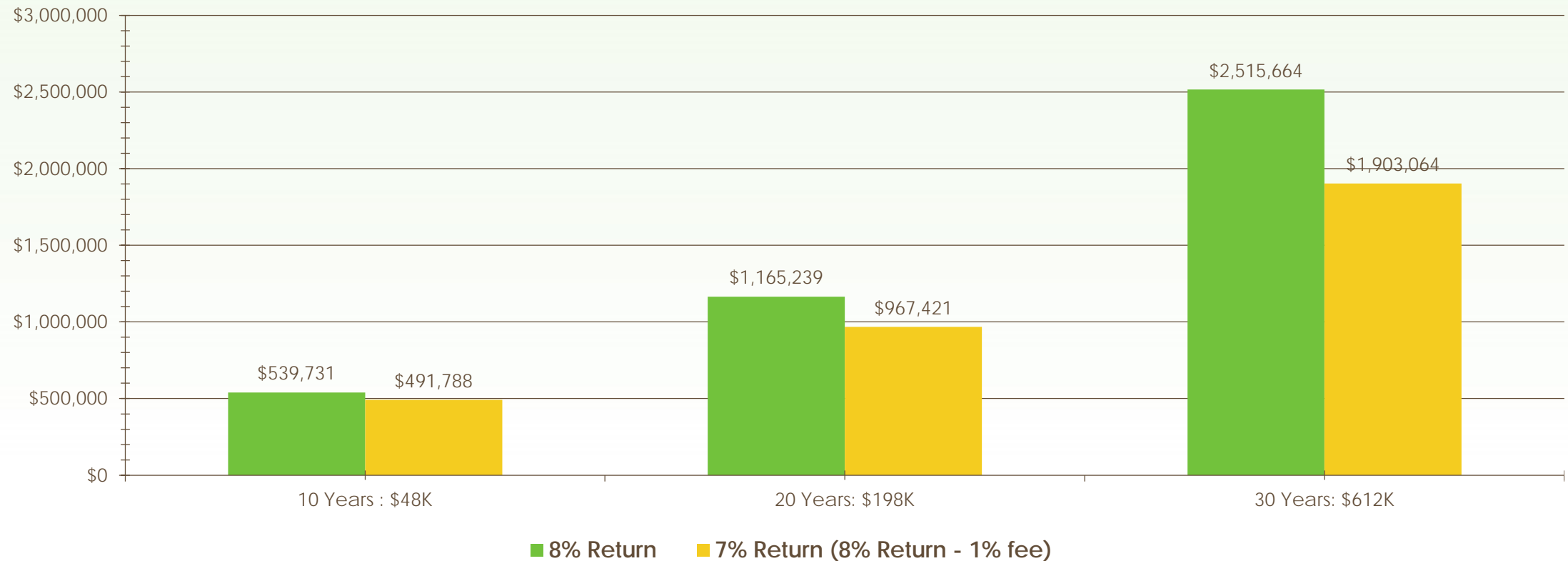
- Tap lower rate sources of credit (home equity loans, cash value policy loans etc.) before taking on credit card debt
- Understand the rates you are paying on credit card debt particularly for cash advances. Prioritize the interest rate over any card benefits if you think you will carry a balance.
- Verify your credit reports annually.
- Being close to or maxing out your credit limits may negatively impact your credit score. It's a good idea to keep your balance on revolving lines under 30% of your limit.
- Paying more than the minimum due may improve your credit score.
- Don't miss a payment. Payment history makes up 35% of your credit score. If you've missed a payment, pay as soon possible.

College

- Reach out to financial aid office and explain change in circumstances.
- Tap into merit as well as need based aid.
- Money in IRAs can be withdrawn without incurring the 10% penalty if used for qualified higher education expenses.

Investment Fees

- Investment fees that you pay as part of your 401K's, IRA's and other investment accounts are often quite substantial. Even a 1% fee adds up over time. On a \$250,000 portfolio that 1% paid over 30 years will reduce the value of the ending portfolio by \$600,000.



Social Security

	Live to 72	Live to 95
File at 62	<p>\$29,579 *</p> <p>\$295,792 **</p>	<p>\$38,164</p> <p>\$1,297,568</p>
File at 70	<p>\$56,627</p> <p>\$113,254</p>	<p>\$72,608</p> <p>\$1,887,799</p>

* Average annual amount collected during retirement

** Total amount collected during retirement

Assumes someone Age 55 today and 2% COLA adjustment

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