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

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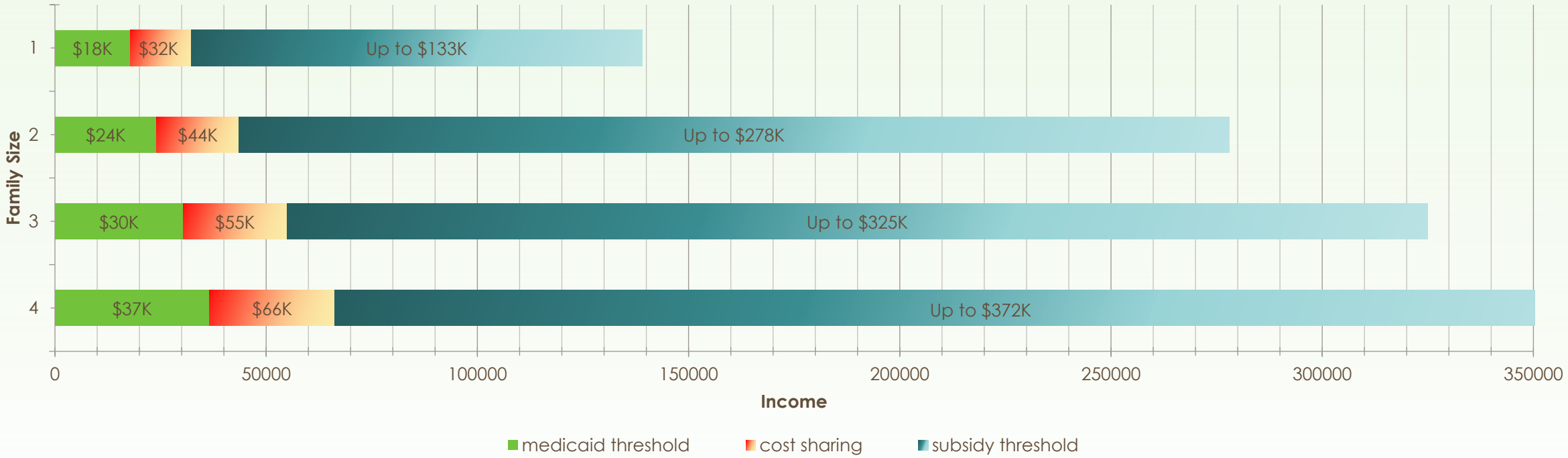
Agenda

- Medical
- SECURE Act
- CARES Act
- CONSOLIDATED APPROPRIATIONS Act
- Taxes
  - Strategies to Defer/Accelerate Income and Deductions
- 401K/403B Rollovers
- 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
- NJ added additional premium subsidy starting in 2021.
- Cost sharing subsidy only available on Silver plans.
- Consider total costs (deductibles, copays, premiums etc.) before switching plans
- Upper income limits shown above only apply in 2022. In 2023 goes back to 400% of Poverty Level.

American Rescue Plan Changes

- Income eligibility "cliff" eliminated for 2021 & 2022. Premium tax credit now phases out gradually. For those with income greater than 400% poverty level the credit is calculated as the difference between the annual cost of the second lowest silver plan and 8.5% of adjusted gross income. For example, a family of four with parents aged 55 and two children ages 18 and 16 the credit does not fully phase out until AGI reaches $297,000. Previously the credit dropped to $0 when income reached $104,800.
- Credits increased for those with incomes below 400% of poverty level for 2021 and 2022.
- Anyone collecting even one week of unemployment in 2021 is assumed to have income just above the Medicaid threshold therefore eligible for maximum premium and cost sharing subsidies.

Other Medical

- The IRS allows a once in a lifetime transfer from an IRA to an HSA (up to $3,650 for an individual or $7,300 for a family in 2021)*
- Withdrawals from 401K or IRA not subject to 10% penalty if used for medical expenses in excess of 7.5% 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.

CARES Act Law (March 27, 2020):

- ~~Extended Unemployment Benefits~~
- ~~RMD Suspended (2020)~~
- ~~Federal Student Loan Repayments suspended until 9/2020~~
- Qualified Medical Expenses for HSA's/FSA's expanded to include certain over the counter medications

Consolidated Appropriations Act, 2021 (CAA) (Dec 2020):

- ~~2020 Tax Credits Paid in Advance $600 Per Person. Additional $600 for children under age 17. Income thresholds:~~
- ~~Pandemic Emergency Unemployment Compensation (PEUC) - Extra eleven weeks of Federally funded benefits after state benefits exhausted (ends March)~~
- $600 Above the line charitable deduction added for 2021. Must be cash. Cannot be a contribution to a donor advised fund.
- 100% of AGI limit for charitable deductions if you itemize (usually bad idea).
- Medical Expenses: If itemize, can deduct medical expenses above 7.5% of AGI
- Health and Dependent Care Flexible Spending Accounts (FSAs) unused balances can be rolled from 2020 to 2021 and from 2021 to 2022.
  - OPTIONAL FOR EMPLOYERS

Consolidated Appropriations Act, 2021 continued:

- College Grant, Loan, and Deduction Changes:
  - CAA does not contain any student debt forgiveness (from CARES Act) or deferral provisions, meaning student debt holders will have to resume payment in February 2021.
  - **Provision from CARES that allowed employers to make tax-free payments, up to $5,250, toward their employee's student debt has been extended through December 2025.**
  - FAFSA application simplified, and number of questions reduced from 108 to 36.
    - "Expected Family Contribution" is now "Student Aid Index (SAI)."
  - Families who make less than 175 percent of the federal poverty level will receive the maximum Pell Grant amount of $6,000.
  - The above the line deduction for qualified tuition expenses will expire at the end of 2020 but the Lifetime Learning Credit income phaseout thresholds will be increased (to match American Opportunity Tax Credits).
  - Students granted emergency financial aid grants by an institution of higher education do not need to include in student's gross income.

Consolidated Appropriations Act, 2021 continued:

- Other changes:
  - Treatment of mortgage insurance premiums as qualified residence interest (now through 2021)
  - 10% credit for qualified nonbusiness energy property, $500 cap (now through December 31, 2021)
    - Qualified energy efficiency improvements include the following qualifying products:
      - Energy-efficient exterior windows, doors and skylights
      - Roofs (metal and asphalt) and roof products
      - Insulation
  - Residential Energy-Efficient Property Credit (solar, etc) increased from 22% to 26% for 2021-22, then 22% until Dec 31, 2023.

American Rescue Plan (March 11, 2021):

- Direct payments of up to $1,400 per taxpayer and dependents as prepayments of refundable tax credits.
- Major changes for taxpayers with children or dependents (2021 only)
  - Changes to the child tax credit (CTC)
    - "Enhances" the amount per child ($2K to $3K), with an additional amount for children under the age of 6 (+$600)
    - Increases the age by one year for 2021 (from 16 to 17)
    - Prepays 50% of the credit (July through December)
  - Dependent care expense deduction changes(2021 only)
    - Increases the total amount of expenses allowed (From $3K to $8K)
    - Increases the Applicable Percentage
    - Increased the 2021 (only) dependent-care flexible spending account limit to $10,500 from $5,000.

American Rescue Plan, continued:

- Discharged student loan debt will continue to not be counted as income through 2025.
  - No provisions to actually provide loan forgiveness.

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 12% 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
- Pay quarterly estimated income tax in January and defer payment of real estate taxes until January, if possible (tax deduction limited to $10k)
- Credits you may become eligible for (Earned Income Credit, American Opportunity Credit, Lifetime Learning Credit)

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

- Make additional contributions to your tax deferred investment accounts (401K, IRA, HSA etc.)
- Delay deferred compensation to following year if possible
- Prepay your January mortgage payment to increase your mortgage interest deduction
- Utilize Donor Advised Fund to "Lump" charitable deductions. Donate appreciated securities if possible.
- Pay quarterly estimated state income taxes in December instead of January and prepay real estate taxes, if possible (tax deduction limited to $10k)
- 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

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

If You are Forced to Take on Debt

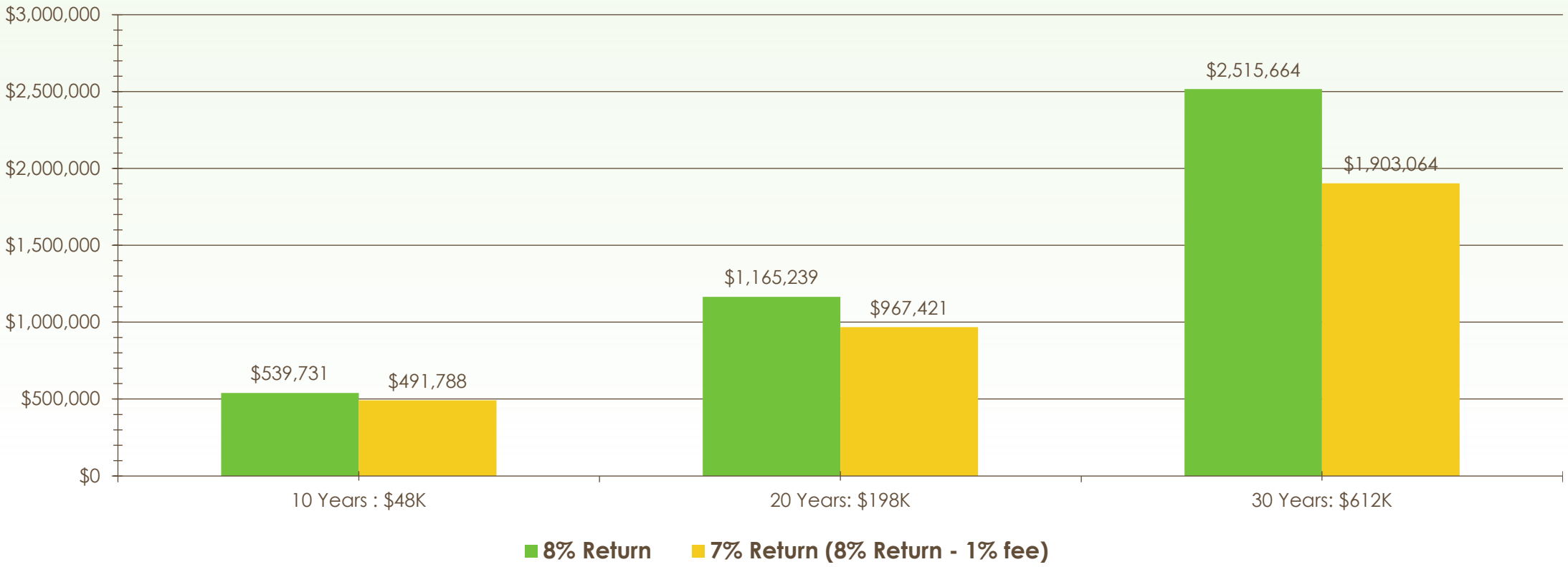
- Tap lower rate sources of credit (home equity loans, cash value policy loans etc.) before taking on credit card debt
- Understand the rates you are paying on credit card debt particularly for cash advances. Prioritize the interest rate over any card benefits if you think you will carry a balance.
- 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	$29,579 * $295,792 **	$38,164 $1,297,568
File at 70	$56,627 $113,254	$72,608 $1,887,799

* Average annual amount collected during retirement

** Total amount collected during retirement

Assumes someone Age 55 today and 2% COLA adjustment

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