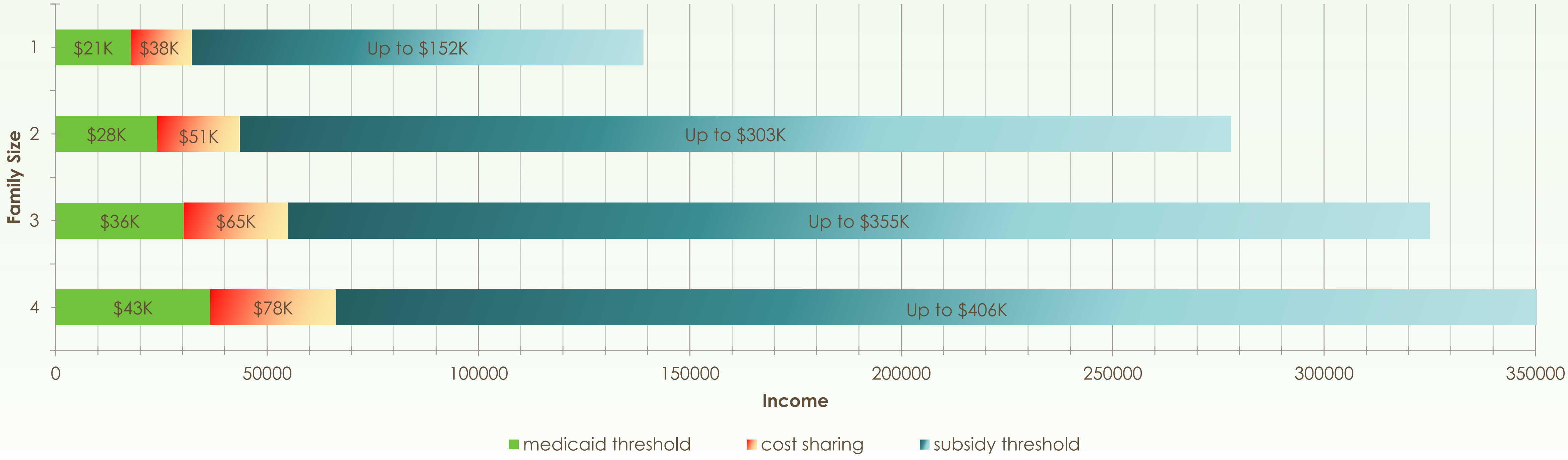
Money Saving Strategies during a Career Transition: Health Insurance, Taxes, Etc…

BILL LACHANCE
PRINCIPAL, WJL FINANCIAL ADVISORS, LLC

Agenda

- Medical
- Taxes
  - SECURE Act
  - 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.
- Open enrollment Nov 1 – Jan 31
- Upper income limits shown above apply through 2025. In 2026 goes back to 400% of Poverty Level.

American Rescue Plan & Inflation Protection Act Changes

- Income eligibility "cliff" eliminated through 2025. 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 $320,000. Previously the credit dropped to $0 when income reached $124,800.
- Credits increased for those with incomes below 400% as well.

Other Medical

- The IRS allows a once in a lifetime transfer from an IRA to an HSA (up to $4,150 for an individual or $8,300 for a family in 2024)*
- 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.


TAX
TAX
TAX

SECURE 1.0 & 2.0 Acts

- Pre-Tax Account Changes:
  - RMD starting age is pushed back to age 73 for those turning 73 between 2023 and 2032
  - RMD starting age is pushed back to age 75 for those turning 73 in 2033 and future years
  - The age limit for IRA contributions has been removed.
  - Inherited retirement account distributions must be taken within 10 years.
  - New parents can take penalty-free withdrawals.
  - Long-term part-time employees may now be eligible for 401(k) plans.

SECURE 1.0 & 2.0 Acts

- Roth Account Changes:
  - Additional Employer (ER) Contributions Eligible For Roth
    - Applicable amounts included in gross income
    - Applies only to matching and nonelective contributions
      - NOT profit-sharing contributions
  - High wage earners (>$145,000) required to use Roth option for catch-up contributions starting in 2024
    - Avoiding the Rothification requirement
      - Change employers to keep employer-specific wages <$145k
      - Generate earnings via self-employment income
    - No catch-up allowed for anyone in the plan if an age-eligible, high-wage-earner cannot make a catch-up b/c the plan does not have a Roth option (Small business issue)

SECURE 1.0 & 2.0 Acts

- 529-To-Roth IRA Transfers (2024)
  - The Roth IRA receiving the funds must be in the name of the beneficiary of the 529 plan; Maximum lifetime transfer $35,000.
  - 529 contributions and earnings go into Roth IRA in like-kind
  - Fine Print:
    - The 529 plan must have been maintained for 15 years or longer
    - Unclear exactly how a change in the beneficiary will be treated
    - Any contributions to the 529 plan within the last 5 years (and the earnings on those contributions) are ineligible to be moved to a Roth IRA
    - Subject to IRA contribution limit, less any 'regular' traditional IRA or Roth IRA contributions, annually
    - Roth IRA income limits do NOT apply!

SECURE 1.0 & 2.0 Acts

- Other Catch-Up Changes:
  - IRA Catch-Up amount now indexed for inflation (2024)
  - In 2025, a new special catch-up contribution is allowed for taxpayers between 60-63 years of age. The limit is equal to the greater of $10,000 or 150% of the standard catch-up contribution limit for 2024 (indexed for inflation)
- Other retirement changes:
  - New Emergency Withdrawal Exception ($1K/year)
  - New Qualified Long-Term Care Distribution Exception ($2.5K/year)
  - Creation Of Linked Emergency Savings Accounts (Highly-compensated individuals ineligible)
  - Employers Matching Of Student Loan Payments
  - Relief For Retirement Plan Mistakes, Penalty reduced to 25% (was 50%)
  - Penalty further reduced to 10% if fixed during the “Correction Window”


What
Do I Do
Now

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

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)

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

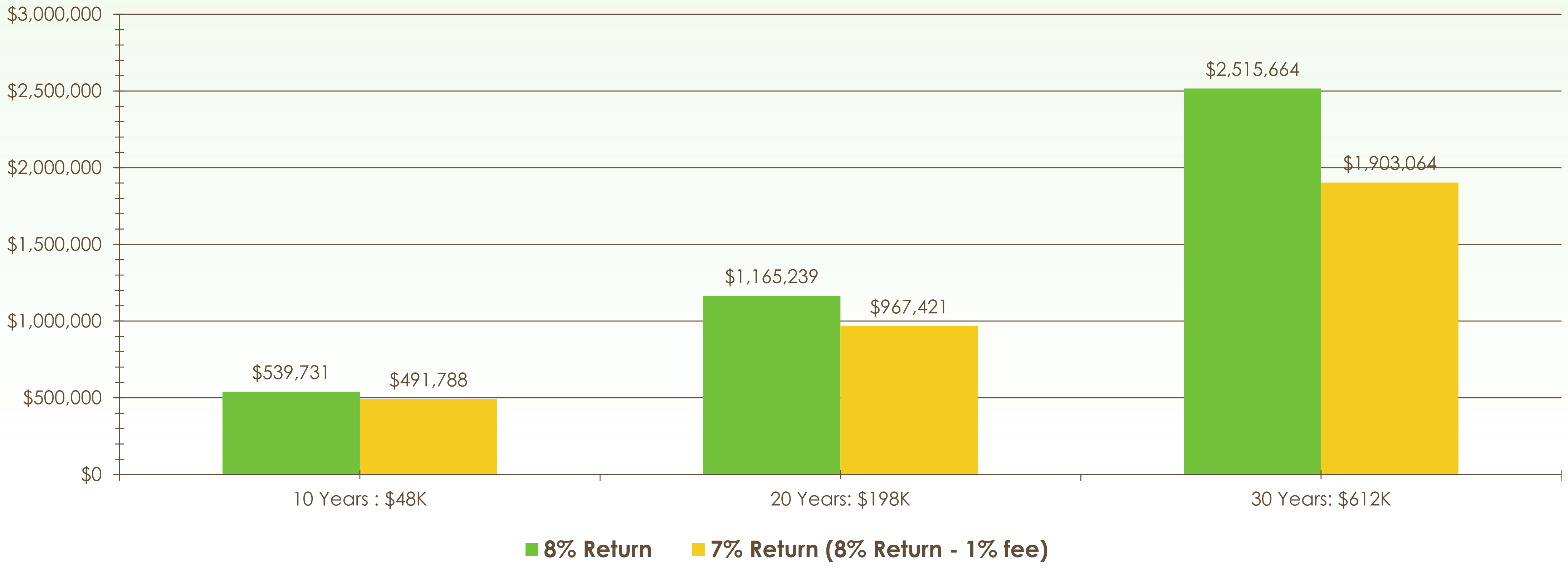
- Tap lower rate sources of credit (home equity loans, cash value policy loans etc.) before taking on credit card debt
- Understand the rates you are paying on credit card debt particularly for cash advances. Prioritize the interest rate over any card benefits if you think you will carry a balance.
- 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

WJL FINANCIAL ADVISORS, LLC
WWW.WJLADVISORS.COM

BILL LACHANCE
973-216-8748
BILL@WJLADVISORS.COM