

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

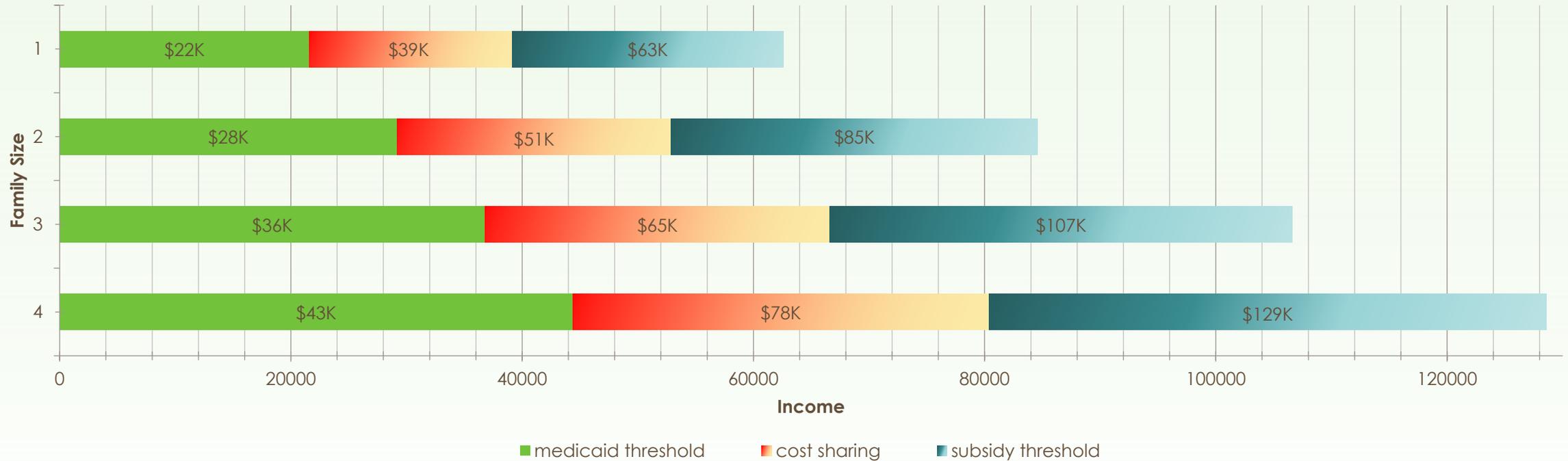
BILL LACHANCE

PRINCIPAL, WJL FINANCIAL ADVISORS, LLC

Agenda

- Medical
- Taxes
 - OBBBA
 - 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
- In 2026 upper income limit to qualify for premium subsidy goes back to 400% of Poverty Level.

Other Medical

- The IRS allows a once in a lifetime transfer from an IRA to an HSA (up to \$4,300 for an individual or \$8,550 for a family in 2025)*
- 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.



OBBBA

- Most provisions of Tax Cut and Jobs Act made permanent (lower tax rates, higher standard deduction etc.)
- Increase in 2025 standard deduction: \$15,750 Single, \$23,625 HOH, \$31,500 MFJ
- New deduction effective 2025-2028 for those age 65 and older of \$6,000 (\$12,000 for MFJ). Deduction phases out for those with MAGI between \$75,000 - \$175,000 (Single) and \$150,000 - \$250,000 (Joint). Deduction available for those who itemize as well as those who take standard deduction.
- SALT deduction limitation increased in 2015 to \$40,000. That cap will increase by 1% each year until 2029. In 2030 cap reverts back to \$10,000. Higher cap phases out for MAGI between \$500,000 and \$600,000.
- Starting in 2026 mortgage insurance premiums will be deductible.
- OBBBA sets a floor on the deductibility of charitable contributions equal to 0.5% of AGI, starting in 2026.
- Educator expenses will deductible as an itemized expense starting in 2026.

OBBBA

- Only 90% of wagering losses will be deductible starting in 2026, while the overall deductible wagering loss remains limited to the amount of wagering gains.
- A new minimum QBI deduction of \$400 for taxpayers with at least \$1,000 of "active qualified business income" starting in 2026.
- OBBBA permanently restores the charitable deduction for non-itemizers starting in 2026 and increases the maximum deduction to \$1,000 for single filers and \$2,000 for joint filers.
- A deduction for up to \$25,000 of "qualified tip" income (with no difference in the deduction limit for single versus joint filers), which will be in effect from 2025–2028. The deduction is phased out starting at a MAGI of \$150,000 for single or head of household filers, and \$300,000 for joint filers.
- A deduction for up to \$25,000 of overtime for joint filers (\$12,500 for all other filers) for tax years 2025-2028. The deduction would apply to the amount of overtime compensation paid above an employee's normal rate. The phaseout begins at a MAGI of \$150,000 for single and head of household filers and \$300,000 for joint filers.

OBBBA

- A new deduction for "qualified passenger vehicle loan interest" that will be in effect from 2025 through 2028. The deduction would apply to interest on loans used to purchase certain vehicles for personal use. The vehicle must be assembled in the U.S. to be eligible for the deduction. The deduction applies only to interest on new loans taken after December 31, 2024. The law caps the total amount of deductible interest at \$10,000 per year. The deduction begins phasing out with MAGI over the thresholds of \$100,000 for single filers and \$200,000 for joint filers.
- The qualified tip, qualified overtime and auto loan interest deductions are below-the-line deductions that can be taken whether the taxpayer itemizes deductions or takes the standard deduction.
- The Child Tax Credit is permanently increased the credit to \$2,200 per child beginning in 2025. Additionally, the credit will be indexed to inflation beginning in 2026.
- The estate tax is increased to \$15 million per person (or \$30 million per couple) starting in 2026, with further inflation adjustments thereafter.

OBBBA

- The list of K-12 expenses that are considered qualified education expenses for 529 distributions was expanded. 529 funds can now also be used for post secondary credentialing expenses.
- All "Bronze" and "Catastrophic" plans offered on Federal or state Affordable Care Act exchanges now qualify as High Deductible Health Plans eligible for HSA contributions.
- OBBBA allows individuals to maintain HSA eligibility while covered by a direct primary care arrangement. Under these arrangements, individuals pay a flat monthly or annual fee for their primary care services (capped at \$150 per month or \$300 per month if the arrangement covers more than one person).
- OBBBA permits Trump Accounts to be established for American children who have not reached age 18 starting in July 2026.
- Parents are allowed to contribute up to \$5,000 per year. Other entities – including Federal, state, and local governments and 501 (c) (3) charitable organizations – can also contribute on a beneficiary's behalf, and those contributions do not count toward the \$5,000 annual limit. Additionally, employers can contribute to a Trump account on behalf of an employee or any of the employee's dependents, subject to a \$2,500 annual cap.

OBBBA

- An American child born after December 31, 2024 and before January 1, 2029 for whom a Trump Account is established will receive an initial \$1,000 deposit from the government.
- Investments in a Trump account are limited only to funds that track a qualified index, defined as the S&P 500 or any index composed primarily of U.S. equities.
- No distributions can be made from a Trump account until the year in which the beneficiary turns 18.

OBBBA

- Repeal of Clean Energy Credits
 - The Clean Vehicle Credit. Up to \$7,500 for a new electric vehicle and \$4,000 for a used one terminates for vehicles acquired after September 30, 2025.
 - Alternative Fuel Vehicle Refueling Property Credit. Up to \$1,000 for electric vehicle charging equipment installed at a taxpayer's personal residence terminates for property placed in service after June 30, 2026.
 - Energy Efficient Home Improvement Credit. Up to \$1,200 toward the cost of energy-efficiency improvements (e.g., windows, doors, insulation, or heating and cooling equipment, and home energy audits) terminates for property placed in service after December 31, 2025.
 - Residential Clean Energy Credit. Up to 30% of the cost of purchasing or installing solar panels, wind power, geothermal heat pumps, or fuel cell equipment terminates for expenditures made after December 31, 2025, regardless of when the property is placed in service.

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

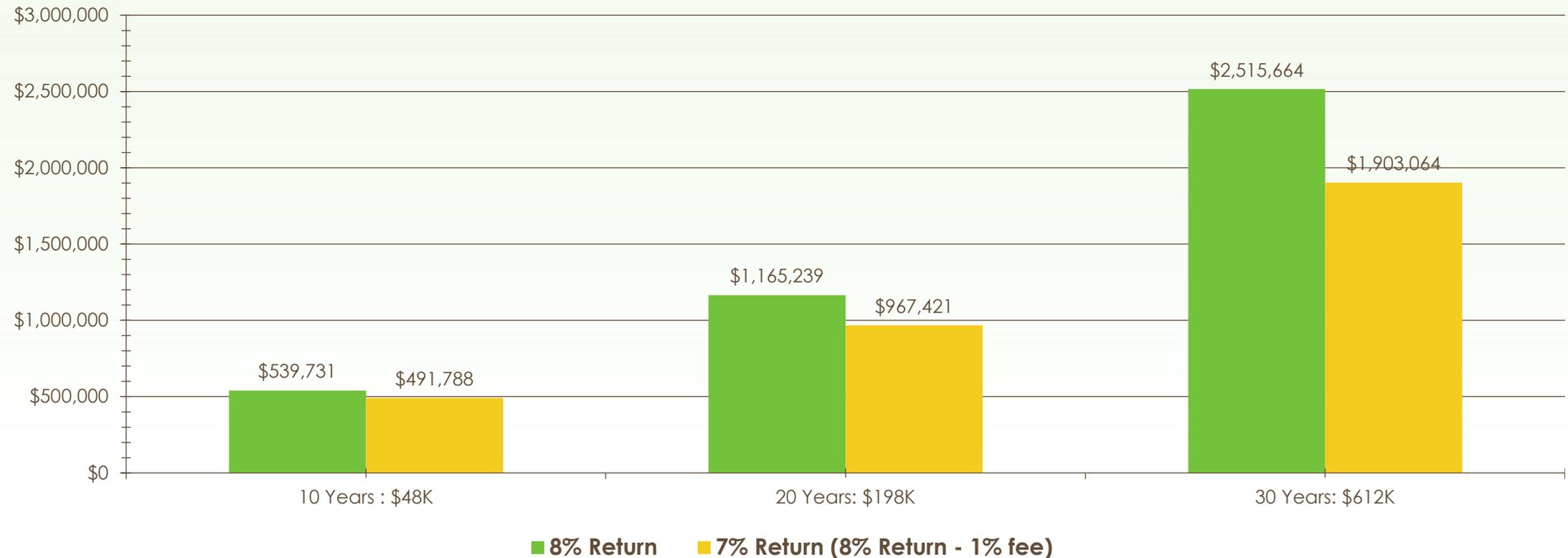
- Tap lower rate sources of credit (home equity loans, cash value policy loans etc.) before taking on credit card debt
- Understand the rates you are paying on credit card debt particularly for cash advances. Prioritize the interest rate over any card benefits if you think you will carry a balance.
-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

* 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