

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

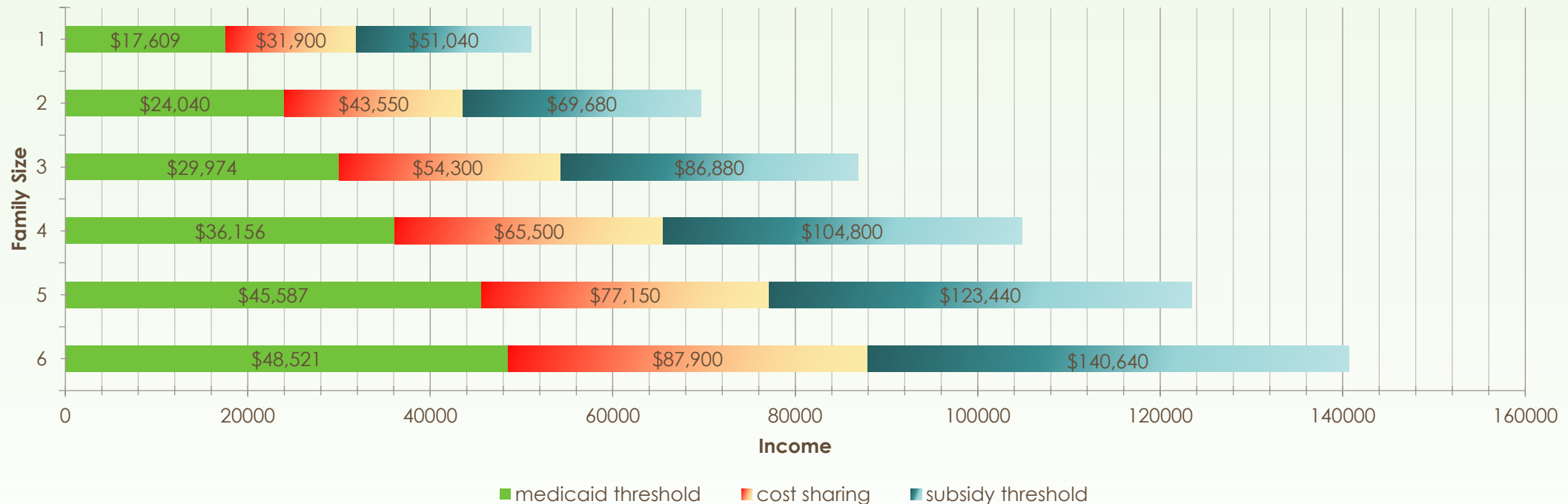
**BILL LACHANCE**

**PRINCIPAL, WJL FINANCIAL ADVISORS, LLC**

# Agenda

- Medical
- SECURE Act
- CARES 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 adds additional premium subsidy starting in 2021. No true up
- Cost sharing subsidy only available on Silver plans.
- Consider total costs (deductibles, copays, premiums etc.) before switching plans
- Open enrollment Nov 1 – Jan 31 for upcoming year on Get Covered NJ

## Other Medical

- The IRS allows a once in a lifetime transfer from an IRA to a HSA (up to \$3,550 for an individual or \$7,100 for a family in 2020)\*
- 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.

# SECURE Act Law:

- “Setting Every Community Up for Retirement Enhancement” (Jan 1, 2020)
- Elimination of maximum age for IRA contributions
- Increase in age for Required Minimum Distributions (“RMDs”) – 70 ½ to 72
- New favorable terms for retirement plans
  - Multi-Employer Plans (“MEPs”) – more favorable terms for small businesses
  - Tax credit for small business plans – 50% of plan costs up to \$5,000 from \$500
  - \$500 tax credit for 401(k) or SIMPLE IRA plans that include automatic enrollment
  - Default percentage for automatic enrollment increased to 15%
  - Part-time employees eligible to participate in 401(k)
- More Annuity Products in 401(k) plans
- Lifetime income disclosure statement for 401(k) plan participants
- Qualified distribution from IRA/401(k) of \$5k to support birth of child or adoption
- Education loan repayment of \$10k from 529 Plan
- *Unfavorable change: elimination of stretch provision for Inherited IRAs*

# CARES Act Law:

- 2020 Tax Credits Paid in Advance \$1,200 Per Person. Additional \$500 for children under age 17. Income thresholds:
  - \$150,000 MFJ – phases out at \$198,000
  - \$112,500 HOH – phases out at \$136,500
  - \$ 75,000 Single/MFS – phases out at \$99,000
- Qualified Medical Expenses for HSA's/FSA's expanded to include certain over the counter medications
- Retirement plan participants “impacted by coronavirus” can take a penalty free distribution up to \$100K in 2020. Must be repaid over three years. Can record income in 2020 or spread out over three years.
- 2020 RMD's suspended including inherited IRA's
- 401K Loans – Maximum increased to \$100,000. Payments on plan loans can be delayed one year.
- \$300 Above the line charitable deduction added. Must be cash. Cannot be a contribution to a donor advised fund.

# CARES Act Law:

- Additional Unemployment Benefits
  - Federal Pandemic Unemployment Compensation - \$600 per week - expired 7/25
  - Lost Wage Assistance - \$300 Per Week for Six Weeks – Expired 9/5
- Extended Unemployment Benefits
  - Pandemic Emergency Unemployment Compensation (PEUC) - Extra thirteen weeks of Federally funded benefits after 26 weeks of state benefits exhausted
  - State Benefit Extension - Extra twenty weeks of state unemployment benefits after PUEC benefits are exhausted
  - Total of fifty-nine weeks. 26 Weeks Base State Benefit + 13 Weeks PEUC + 20 Weeks of State benefit
  - Enrollment in PEUC and State extension is automatic

## 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

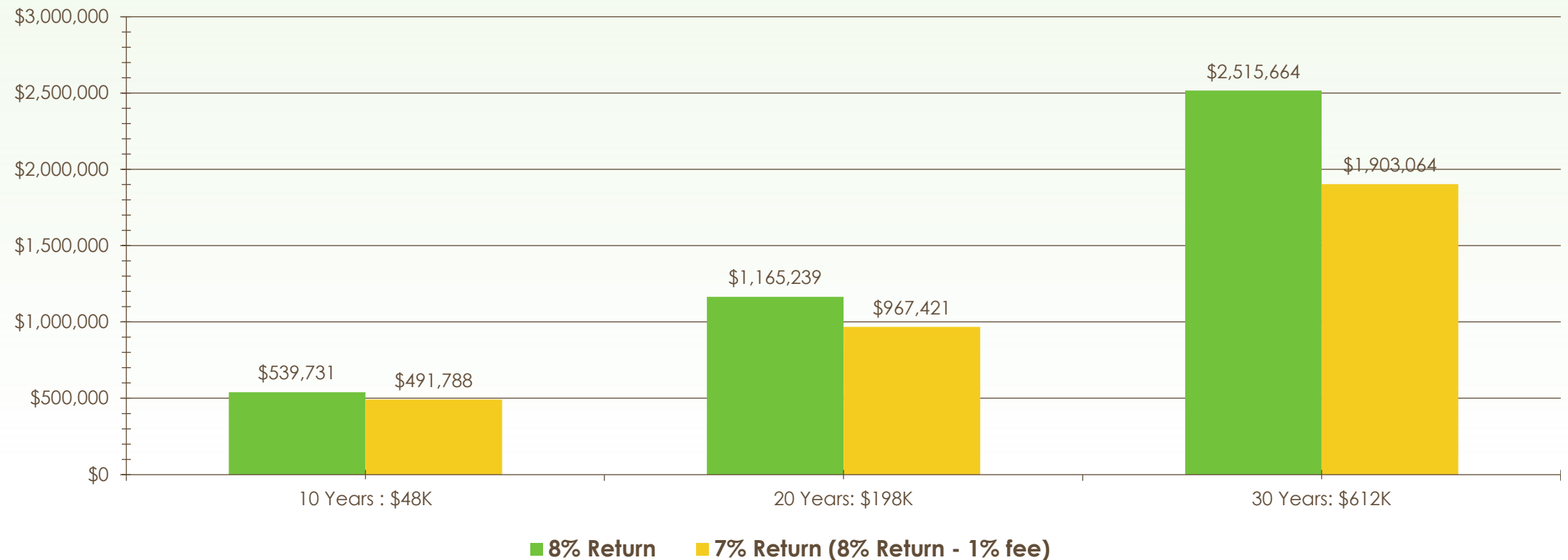
- Tap lower rate sources of credit (home equity loans, cash value policy loans etc.) before taking on credit card debt
- Understand the rates you are paying on credit card debt particularly for cash advances. Prioritize the interest rate over any card benefits if you think you will carry a balance.
-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

\* Average annual amount collected during retirement

\*\* Total amount collected during retirement

Assumes someone Age 55 today and 2% COLA adjustment

# Thinking About a Career Change?

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