Episode 147 Navigating Medicare and Tax Planning

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Medicare penalties, tax planning, income thresholds, premium increases, Affordable Care Act, subsidy impact, retirement income, Social Security torpedo, modified adjusted gross income, Medicare Advantage, Part D premiums, Medigap, life changing events, marginal tax rates, financial planning

SPEAKERS
Alex Murguia, Bob French, Wade Pfau

Bob French 00:00
The purpose of retire with style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to risaprofile.com/style and sign up to take the industry's first financial personality tool for retirement planning. Think you're done with surprise charges, not if Irma has anything to say about it. Join Alex and Wade as they delve into the secrets behind Medicare's income penalties.

Alex Murguia 00:52
Hey everyone, welcome to retire with style. I'm Alex and I'm here with Wade, and today we're here to cover

Wade Pfau 01:02
weight tax planning with relation to health care, specifically Irma, the income related monthly adjustment amounts for Medicare premiums and also Affordable Care Act subsidies. So it's a health care combo. And if you're 63 or 64 years old, it can be a double whammy if you do get your health insurance through the Affordable Care Act and you're getting ready for Medicare, speaking

Alex Murguia 01:25
about double Whammies, if you thought you couldn't get any better than the Social Security tax torpedo that we discussed in the last episode, well, we're coming strong With the Medicare glitches that could run rampant within your run wild. Glitches return make

Wade Pfau 01:45
people, yeah, these glitches make people a lot angrier than and rightly so when you get these as we'll talk about 99,000% tax rates and so forth. But we'll, we'll get to all that. That's a little teaser. Man,

Alex Murguia 01:58

that's not even the 1%

Wade Pfau 02:02
I'm $1 of income can generate another $1,000 of Medicare premiums.

Alex Murguia 02:08
Now whoever thought of that policy is going to the Congressional Hall of Fame, right to Canton is there? I don't know why there isn't like an equivalent of like a Hall of Fame for politicians. Could you imagine what a mess that would be?

Wade Pfau 02:24
Could be political motivations for who gets

Alex Murguia 02:28
that reminds me of your you know how you're going to all the presidential libraries? I guess that's the equivalent, right, at least right now that in the Disney Hall of Presidents, yeah, the libraries, right. I was driving by. Have you been to the Virginia Woodrow Wilson?

Wade Pfau 02:46
One? Woodrow Wilson one in Virginia? Maybe. I'm wrong. I know the New York State and it buried in the National Cathedral there in DC. Is

Alex Murguia 02:55
he? Yeah, I have no idea. I just know I was going to Virginia Tech, you know, dropping off my kids, and there was a Woodrow Wilson presidential library. And I was like, Yeah, I saw it twice. That's why. I was like, hmm. And then I thought of you, thinking us, Wade, didn't you? Or could that be like a satellite office,

Wade Pfau 03:18
if you will? Yeah, I have to look that up. I've not been to that one at any rate, but I'll have him ahead. He's

Alex Murguia 03:23
from New York, right?

Wade Pfau 03:25
Am I wrong in that New Jersey? New Jersey, sorry. Governor in New Jersey, yeah.

Alex Murguia 03:29
What was the school he wasn't part of? I forgot. Princeton. Oh, your school. There you go. How could I forget? How could I forget? That's right, yes, always trying to find a way to drop in your former alma mater. I get it. I get it.

Wade Pfau 03:44
He wanted the Graduate College to be part of the main campus, but the other guy who, if I recall, right, his name was also Wilson, but he wanted the graduate school to be off on its own, separate from the campus. And that other guy won out. So he had a long walk back and forth to campus.

Alex Murguia 04:01
The tragedy. The tragedy of it all. And you're still here with us today, but it's forged you into the person that you are right now.

Wade Pfau 04:10
This was pre Fitbit, but I got my steps for sure, pre Fitbit. Look

Alex Murguia 04:14
at that. But look at you dropping Princeton. Too bad I'm not from Harvard. I would be dropping that back, but I don't know why you do that way. You don't hear me talking about GW,

Wade Pfau 04:24
name for the first president. There you go. More beloved president. The what? Which one? Well, George Washington was more beloved. Woodrow Wilson is one of our least popular. Yeah,

Alex Murguia 04:36
right. He kind of sideways the last few years, but

Wade Pfau 04:43
say it again, not a great guy. Oh,

Alex Murguia 04:45
was he not a good, I don't know about his policies kind of were out there. But was he like an Andrew Jackson irascible kind of guy, or not at that level?

Wade Pfau 04:54
Well, he was pretty racist, even for that era. Oh, was

Alex Murguia 04:58
he I have no idea. Right,

Wade Pfau 05:01
okay, although that's a different podcast, probably yes, yes.

Alex Murguia 05:07
All right. Well, moving on healthcare. Fire away. Yeah,

Wade Pfau 05:14
Medicare, sorry, Medicare. So we're talking about tax efficient retirement planning, and we're talking about effective marginal tax rates. So if, when you generate more taxable income, what's the overall tax impact? Some of that won't technically be called taxes, but with Medicare, as your taxable income exceeds, and, more specifically, your your modified adjusted gross income exceeds certain thresholds, your Medicare premiums will go up. Your Part D premiums and your part well, your Part B, more important, and your Part B premiums will increase in discrete jumps. And that can be really unsatisfying for people. It's not the end of the world because it's not something permanent, and it's done on a year by year basis, but you do want to keep in mind

that if you don't want to just accidentally generate a few dollars too much of income, and then find yourself, if you're a single person paying an extra $1,000 of premiums for a couple it's an extra for each person, so up to $2,000 of extra premiums. Could

Alex Murguia 06:19
I, can I interrupt you here, Wade for a second, just because the other day I was watching TV, and this person was talking about Medicare and the, you know, part A, B, you know, that kind of just going through the alphabet soup, and he was butchering it. And so, since we're talking about this, and I have to assume not everyone is up to date on the levels, you know, the alphabet soup, Medicare. I mean, we can do a game time decision here, is it worth just going into it very briefly. We have episodes on this. So, you know, I invite those to to really dig down. But for those of you that are kind of getting their feet wet on this may be worth just to discuss it, just because, again, when I was watching, I want to say was on CNBC, I think was Kramer. In fact, he was just making a mess of it, and maybe worth just giving a little

Wade Pfau 07:09
I'm guessing he's not the best resource for Medicare, yeah. And in

Alex Murguia 07:12
his defense, I think he was just talking about his own personal anecdote, and he was going all over the place with it, and it just got me the thing. And then, as I heard you introduce this episode, there are probably some folks that are just not completely up to speed. And I would butcher it if I did it. So do you want to maybe do the 30 seconds or less

Wade Pfau 07:33
levels of 1965 Lyndon Johnson?

Alex Murguia 07:38
Don't talk about what the hell's her name the my favorite person, the Aida, is that her name the the social security person, the first person who ever gets Social Security, what's her name? Oh,

Wade Pfau 07:51
yeah, I, I've known I'm currently here, and I'll have that name at the ends, right? And that's messing me up, no, but it's like an old school kind of name. Yeah, yeah, it's old school. She, she paid about $20 in and got about $20,000 of benefits out. Ida may fuller item, a fuller

Alex Murguia 08:10
that's it. So it is. Ida, there you go.

Wade Pfau 08:14
Came back to me, all

Alex Murguia 08:15
right, Ida may Fuller, so go on, do your little, not little, but do the quick and dirty on Medicare, ABC, that kind

Wade Pfau 08:24

of thing. This is not the Medicare episode, but most people will become eligible at 65 and then you'll need to pick, do you want to go with Original Medicare or Medicare Advantage? Most of the commercials you see on TV are for Medicare Advantage, but Original Medicare includes Part A hospital insurance, Part B, medical insurance. If you instead go with Medicare Advantage, it's technically Part C is the Medicare Advantage plans, and then Part D is prescription drug coverage. Many Medicare Advantage plans will include a Part D prescription drug benefit as well. But if you're going with Original Medicare, you got Part A, Part B, and then, unless you have some sort of secondary retiree health insurance, you to cover prescriptions, you'll probably get a Part D prescription drug plan. And then you can top that off as well an Original Medicare with a Medicare Supplement, also called Medigap, which will pay for some of the various coinsurance, deductibles and different things that are part of the original Medicare so that, and even if you have Medicare Advantage, this is not a way to get around Irma, because you still technically are going to have to pay those Part B premiums. Part of it may be offset for you, but at least the surcharges are going to be on your table to pay, and that's what we're talking about. You've got your base rates, which in 2024 the Part B base rate, monthly premium is $174.70 Part D. It varies, but the national average. Was $34.70 a month. Those are the base premiums. And then it's just a matter that as your modified adjusted gross income, as it's defined for Medicare, exceeds certain thresholds, you have discrete jumps in what those premiums will be at that modified adjusted gross income, it's actually from two years prior, which adds to the complexity of this one. So it's your your if you're going to start Medicare at 65 it's your income at age 63 that matters for it. And it takes your adjusted gross income and adds some additional things, like all of your Social Security benefits, not just the taxable portion, the tax exempt interest, if you have any foreign income that would have been excluded in your Aga, that gets added back into your Medicare, modified adjusted gross income. And then so in 2024 right now is where is this episode will be airing. You look at your taxable your income situation from two years prior. So in 2022 for single filers, the first Irma bracket where you have to pay those higher premiums, it's $103,000 for single filers, or technically it's once you get to the $103,001 that's what would trigger the higher surcharge, if it's married filing jointly, $206,001 and what if your income gets to that level? Instead of having assuming you paid the average Part D premium per person, your Part B and Part D premiums would have added up to 25 about $2,513 a year, and that's per person. Once you had that $1 too much, they go up to $3,506 per year per person, or $994 more per person per year. That is a 94,000 a 99,400% marginal tax rate on that dollar of income, if you consider premiums as part of your taxes, which technically they may not be, but for all practical intents and purposes, yes, this is we can treat this as a tax on your lifestyle and retirement as an

Alex Murguia 12:17
aside, just because you're into public policy, just thinking about and not into it like hardcore, but just like you, it's of interest to some extent, and you follow it more than I do. Why do you think they have this choppiness to these increases, as opposed to gradual, gradual kind of approaches? Why do they tend to do this? Do you have any idea, or is it just when you're doing it, it's just simple. Is it one of those things, and the anchor in that simplicity?

Wade Pfau 12:44
Well, it's certainly not linked to any sort of economic theory, because economic theory tells you don't have 99,400% margin. No, I'm trying to, I'm trying

Alex Murguia 12:54

to give the benefit of doubt of why. You know the easy answer is, these guys are idiots. These people are idiots. You know that that kind of because Equal Opportunity idiots everywhere, right? But what, there has to be some reasoning why they would have this kind of shift, if you will. Well,

Wade Pfau 13:15
it's progressive, so the higher your income, the higher your Medicare premiums, I guess, to make the argument that that's a reasonable thing to do, and then I don't know how much thought they put into the precise way they're doing that. They just pick the once you have $1 too much, you're you get a big jump in your premiums. I guess that's simple to create, but it does lead people to not being happy when they accidentally trigger slightly more income can find they have a much bigger Medicare premium because of that, there's five different brackets where that happens for single filers. Get the 103,000 that we mentioned. There's another one that comes in at 129,000 then another one at 161,000 and then another one at 193,000 and then a final one at $500,000 which is quite a bit higher, but basically that extra $90,000 going from 103,000 to 193,000 that will increase your Medicare premiums for the year For a single person by about $5,500

Alex Murguia 14:20
that's significant. No, just amazing. What I would say, just because you're spitting out numbers here, this is all covered in your book correct way, just as folks maybe are listening in, trying to take notes or whatnot. And yes, we could have little tear sheets show notes. More is coming. We're going to redesign a lot of this podcast, but more is coming, you know, with that from that standpoint, but you want to talk about how this is covered in your book, just so people, if they're listening, can just relax and listen without trying to furiously write notes.

Wade Pfau 14:53
Right, right? Especially with this tax planning conversation, it could be helpful to see things in front of you and. Everything we're describing visually. You can see it in chapter 10 of retirement planning guidebook available through Amazon, in your favorite book retailers.

Alex Murguia 15:09
Wow, look at that. Wade, I'm giving you, I'm teeing you up, buddy. You know, that reminds me of my I have five kids. There's a, you know, it's, we're recording this, well, we're recording this on Rosh Hashanah, so my youngest had a sleepover last night, and there were five boys downstairs, and they're watching, they're watching, like, Minecraft on, uh, on YouTube, right? They, they love that stuff. And I was teasing like

Wade Pfau 15:36
that, huh? You mean people playing Minecraft? Yeah, exactly

Alex Murguia 15:40
playing Minecraft. And I did the whole Rick and Morty quote where I was like, so guys, are you mining to craft or crafting to mine? And then it looked at me like, I'm an idiot. And then I was like, Hey, I'm going upstairs and record a podcast. Now, you know, your dad's an influencer, influencing what? And I was thinking, we're redesigning this podcast. I'm influencing people to hang up on me, you know, or switch switch off or whatnot. So we're redesigning the podcast. Soon enough, Wade and I are going under the hood. And so we'll have tear sheets and all that

stuff for all the episodes, and we'll be somewhat more organized, right Wade, getting our stuff together.

Wade Pfau 16:22
That's the dream.

Alex Murguia 16:23
That's the dream. That's the dream. But again, we're seeing a lot of numbers during this we're giving a lot of tables, so just Wade has this all in his book. And you know, your book's doing fantastically well on Amazon, and it should be. So just listen in for the high level stuff and the details I would I wouldn't try to memorize or commit to memory right now, just get the book.

Bob French 16:45
Are you getting close to or are you in retirement? Well, investing during retirement is a little bit different than during your working years. Your investments are there to help you pay for retirement, and now is when they need to earn their keep to make sure you're on the right track. Download retirement researchers, eight tips to becoming a retirement income investor by heading over to retirement. Researcher.com/eight tips again. Get retirement researchers eight tips becoming a retirement income investor by going to retirement. Researcher.com/eight tips. That's the number eight tips.

Alex Murguia 17:23
Sorry, wait for that little interlude. Thanks

Wade Pfau 17:26
for the plug. And yeah, it's probably hard to listen to some of these episodes at a faster speed when all these numbers are getting thrown out. But yeah, all those numbers are available through chapter 10 of the retirement planning guidebook. Now that being said, there are a couple ways to get some relief from well, okay, and so we said two years prior. So that's if I'm starting Medicare at 65 this starts to matter at age 63 because that income will be used to determine what Medicare premiums I pay when I turn 65 and then my income in 2023 will impact my premiums in 2025 and so on throughout the rest of my life. And it's done on an annual basis. It's not that if you mess up once and have too much income, you're stuck for the rest of your life. It's my income was too high, then I'll have the higher premiums for a year. But then if my income came back down, my premiums will come. Yeah. But

Alex Murguia 18:21
what you want people to think about when you're saying this is, if somebody's like in the in this age bracket, and they're thinking about, you know, they have a certain level of income right now, and all of a sudden they think, I'm not making enough, or whatever, and they ask for, this is stupid example, but just to kind of direction we say it, I'm gonna have a side hustle, or I'm gonna do a side I'm going to ask for a raise. I'm going to get 4000 more a year. Well, but if you put yourself in a bracket that all of a sudden your Medicare premiums are X amount more. What was the point? Right? You're kind of like working for free at that point.

Wade Pfau 18:55
Yeah. And the other problem is, you don't know what the Medicare brackets will be until two years later. These brackets do tend to increase for inflation, so as a conservative assumption,

you might just target, I don't want my income to go over this year's bracket levels, and then hopefully, with two years of inflation, the bracket levels will be higher two years later. But when you're determining your income for this year, you don't know what those brackets are going to be until two years later. So that's another complexity, again, that the way to practically deal with that is just assume this year's brackets will apply two years later, and then probably the brackets two years later will be higher than this year's brackets. Oh, and then with relief. There is form SSA 44 which you can fill out and send to the Social Security Administration asking for your to not experience these higher premiums, to please provide relief. Don't charge me the higher premiums. Just charge me the base premiums, and I should say about eight. Percent of Medicare recipients do pay higher premiums, but there's a list of seven different life changing events that if you can qualify, it can give you that redress to not have to pay the higher premiums if you're doing Roth conversions, that's not one of the life changing events, so you probably have to pay higher Medicare premiums. But the life changing events that could justify asking for to not be hit by Irma, to not be hit by these Medicare surcharges if you get married, if you get divorced or have an annulment, if your spouse dies, if you if you have a work stoppage or reduction, and this is important, if I was still working at 63 but I retired at 65 I could fill out form SSA, 44 and say, Hey, I'm retired. Now. I'm not working anymore. Please don't charge me the higher premiums. That's probably the most common or practical item on this list. But also, if you have a loss of income producing property, not because you sold it, but because most of it's like related to natural disaster type reasons destroyed your property, if you lost pension income because your employer's pension plan ended, or if you received an employer settlement payment, those are the seven life changing events that You could use to request not having increases in your Medicare premiums.

Alex Murguia 21:24
There's one more event that life changing events that helps you avoid Medicare premiums as well, like the increase. I'm surprised you missed it

Wade Pfau 21:32
if you pass away. No, okay, it's too much.

Alex Murguia 21:36
There's two more. It's two more. There's two more to shade. There's two more. What's the other way to help you avoid this the sort of, you know, Medicare torpedo, if you will.

Wade Pfau 21:53
Well, you could go back to work and get employer based coverage, so you just

Alex Murguia 21:59
Wade listening to this podcast, oh, or your book, sorry, a

Wade Pfau 22:03
life changing event, yeah. Okay, yes, thank you. Good joke, bro.

Alex Murguia 22:12
Thank you. Thank you. Take away, just on the way out, everybody.

Wade Pfau 22:19

I'll be here all week. All right, okay, so that's that's Medicare, and to fill out the episode, let's also talk about the Affordable Care Act subsidies. Now, this is kind of a whole different beast, and this is if you're getting health insurance through the Affordable Care Act, which would only be relevant up until you start Medicare. If this is really if you're retired early, you don't have employer based or any other health insurance. So you do go to the healthcare exchanges and you have an Affordable Care Act policy, there are income related subsidies available to reduce the cost of your coverage. So again, this is technically not a tax, but if I have a higher income and that causes me to have to pay for more of my health insurance, I get less of a subsidy to cover my health insurance. Yeah, we can interpret that as a tax for the purposes of if I'm having to pay more on my health insurance as my income goes up, that's, that's a tax. So it's not technically a tax, but we can treat it as a tax in terms of your your take home pay after taking care of all these other matters.

Alex Murguia 23:32
I mean, it's money that the government gets. Whatever you want to call it, call it, yeah,

Wade Pfau 23:38
yeah. And so, like we're saying, because of this, if I'm if I have an ACA policy, my income in ages 63 and 64 will impact my subsidies for my health insurance this year, and will also impact the premiums I pay on Medicare two years later. So that's the double whammy here. Now in terms of how this works, this would definitely be an area where refer to the book because it is quite technical well explain the basic idea behind it. And this is also something that now, with the inflation Reduction Act in 2022 the subsidies are more generous under current law. We go back to a different subsidy system in 2026 if no change is made with that one, subsidies end at 400% of the poverty line currently, 2024 2025 you can get subsidies at pretty high income levels, even more than $400,000 if you live in a county with a expensive health insurance. Because the way it works is on a county by county basis. In the US, there's going to be a bench a cost for a benchmark plan, and that's the second to lowest cost a Silver plan in that county. And you can find that@healthcare.gov or you can that's where you have to actually look. Okay, let's look at the list of silver plans in my county. What's the second to least expensive one? Or there's other websites that just list those out. They do the work for you of figuring out what was the answer to that question, the second to lowest cost silver, plain in each county, and they'll list them out for you. That's potentially what your total subsidy could go up to that amount, but then your subsidy that you receive is going to be based on your Affordable Care Act, modified adjusted gross income, and that includes your adjusted gross income, your untaxed portion of your Social Security. I think I might have mentioned earlier in the episode for Medicare. I think I was mixing up the two modified adjusted gross incomes with Medicare, you don't add in the untaxed portion of the Social Security with the Affordable Care Act, you do add in the untaxed portion of Social Security, and also you add in tax exempt interest. Those are the main things. And then you take that measure and compare it to your household's federal poverty line. So there are federal poverty lines for the 48 continental US states to everywhere except Alaska and Hawaii and then Alaska and Hawaii have their own federal poverty lines that are quite a bit higher than in the rest of the country. Those poverty lines also are based on the household size. So just for an example, and also the benchmark plan, it's also based on your age, whether there's one or two people each of their ages, and whether or not they smoke. Just

Alex Murguia 26:30

to make sure, here for listeners, we switched a little bit you're talking about now, subsidies, how much you can receive, and so forth. The first step is you need to meet one of these seven issues that you listed out right then. Then you're saying within that you can request a subsidy if you meet these and you know it checks out that subsidy is based on the second lowest silver plan in the list of your area, of your relevant area, your calendar, and the government tells you, okay, this is kind of what the Benchmark Number is for you to pay. And now they for that we're going to cover, and now they begin reducing that amount based on what you're explaining right now.

Wade Pfau 27:12
And you don't have to pick that plan. You could pick a less expensive or more expensive plan, but the amount of subsidy you'll get is based on

Alex Murguia 27:20
that number. Yeah. Sorry, yeah, it's based on that number. And you're saying listeners don't have to do that math at home, because there's many services that provide this for you.

Wade Pfau 27:31
Oh yeah, yeah. There's websites that will calculate what your subsidy is, although that I think you're when you fill out your tax forms that'll also be done automatically for you. So this is more just a matter of if you want to know in advance what this is the calisthenics I thought it looks like. Okay, so consider, we've got a household with two people, 260 year olds. They're getting their health insurance through the Affordable Care Act. They live in a county that, coincidentally, its benchmark plan is the same as the national average, which in 2024 annual premiums of $24,307 and then, because this couple we're assuming lives in the continental United States, two person household, their federal poverty line is $19,720 So then it's just a matter of plotting out how much subsidy they would get if they if, well, if your income is less than the federal poverty line, you're basically eligible for Medicaid, and you're not getting Affordable Care Act, health insurance or subsidies. But as soon as you get to 100% of the poverty line, so as soon as you want to have the unless you want Medicaid for other reasons, you want to have at least that $19,720 of income. That's the poverty line, then you get 100% of the subsidy. So your subsidy amount would be that 24 up to 24,720 if you have health insurance that costs at least that much. And then as your income increases beyond 100% of the poverty line, your subsidy gradually declines. And in this particular example, you could continue to get subsidy up into about $290,000 of income. Now that's the one that in 2026 if they go back to the old system, there's going to be another discrete jump, because once you get to 400% of the poverty line, which would be in the example we're talking about here, about 70, a little bit less than $80,000 your subsidy would just drop off to zero. And at that point, under the current rules, your subsidy would still be more than $16,000 at that income level. So right there, there's a discrete jump. $1 too much. You lose $16,000 a subsidy. That's what could come back to us in 2026 that does not currently exist right now.

Alex Murguia 29:55
What if you're a longshoreman? Yeah.

Wade Pfau 30:00
Know, what did they have? A different

Alex Murguia 30:04
strike going on. And in the news, it's like, these people are making $200,000 a year. What are they striking about? I'm not involved in the ins and outs of that, but it was like, that's one of the like storylines that are, that are coming out. But what?

Wade Pfau 30:15
Yeah, $200,000 a year. They could still be getting close to depending on the cost of their benchmark plan, but somewhere in the ballpark of $8,000 a year, a subsidy, still.

Alex Murguia 30:26
So I asked you a completely nonsense question. You came back with a very ladies and gentlemen, Mr. Wade FAO,

Wade Pfau 30:35
all right, right, yeah. And if you want to treat the rules are kind of complicated on this, but if you want to treat like if I get one more dollar of income, I'm going to lose subsidy. What's the implied marginal tax rate on that? What when I'm below $400,000 it can be a bigger impact. You can get up to 18% or 18 and a half percent as the implied marginal tax rate, because $1 of income means I lose up to 18 and a half cents of subsidy for that dollar. So that's an additional tax and then once you get past that 400% of the poverty line, you get into this long runway where there's an eight and a half percent effective marginal tax rate until I finally have enough income that I no longer get any subsidy. Each dollar of income leads to eight and a half cents of subsidy being lost. So whatever my tax rate was, I'd add another eight and a half percent to that to see my effective mark. And again, we're using tax a little bit loosely here, but my take home pays, so to speak, on that dollar would also be reduced by eight and a half cents for the loss of health care subsidies when I get my health insurance through the Affordable Care Act. And that's that's it. It gets pretty technical, but the the base

Alex Murguia 31:58
is never it, but that's it for now.

Wade Pfau 32:01
That's it for now. That's the healthcare related Medicare, Irma surcharges and Affordable Care Act subsidies and how they are impacted by income.

Alex Murguia 32:10
I will say this wade in terms of where we're going with this arc. If you folks have noticed, the last episode was about like the Social Security torpedo. Here we're talking about these Medicare gap ups, right? This is where planning becomes extremely important. I mean, many folks when we budget, you know, retirement, oh, we got to do the budget. And you start line item in line. I mean, line iteming, line itemizing everything, and zero cost accounting in terms of what do I need? I may not need this anymore, trying to, you know, reduce monthly expenses by as much as humanly possible, right? And sometimes there's, there's a marginal utility, all of that, and they ignore issues like this. And these are not like, Hey, I'm not buying, I'm not buying the brand name anymore. I'm buying the the Kirkland brands or whatever, right? But these are the things that I would say folks largely ignore and with, with a lot of just not a lot of, but with some thoughtful planning, this can make a huge difference. You know, between the ages of 63 and 75

you know, coalescing all of these potential hurdles into sort of a meaningful, frictionless path, I mean, solves a lot of issues that I think we create a lot of undue anxiety in other areas for

Wade Pfau 33:32
wait absolutely and also this, this is part of our list of like pitfalls from generating income. And so when we're we're building towards looking at Roth conversions, but if we're voluntarily generating additional taxable income to be more tax efficient, we do need to monitor these pitfalls. And that was the the impact on Social Security, that is the impact on Medicare, that is the impact on Affordable Care Act subsidy. Now

Alex Murguia 34:00
for those listening, how much of a game is this? If you don't look at this holistically, in the concept of within the construct of a holistic financial plan, if you will, I'm going to try to work in the word holistic one more time before I'm done. Just did. But when you're considering this within a plan, how much of this is whack a mole where, okay, I'm just gonna deal with taxes, and by dealing with taxes, oh, but you ignored the Medicare. I'm sorry. I'm just dealing with Social Security torpedo, right? But in doing that, you ignore the Medicare, and then you just do a Medicare. But in doing that, you forgot about the torpedo here on the Social Security. How much of this is systemic, in which you have to do all of these at once, as opposed to lighting them up one at a time and dealing with them independently.

Wade Pfau 34:47
Well, hopefully, most of the software that can look at this, which there's not a lot, and especially not direct to consumer, you really gotta. There's some advisor software that can do these things. They'll be looking at them. At the same time, specifically, the the income levels that hit the Social Security and the Medicare are different. About half of people are paying tax on Social Security benefits. Only about 8% of people are paying tax or surcharges on Medicare. By the time you hit a Medicare surcharge, you're already through the Social Security tax torpedo. But yeah, you do want to be holistic. And you got to really be integrating all these different factors in the planning process, not just looking at them one at a time

Alex Murguia 35:31
and left to their own devices. Because you had said, Oh, but consumers don't have these available, and I'm not making everything is a plug. I get it, but this is not an overt plug for financial planning, or, Hey, talk to an advisor and do a financial plan. But I think this is where people get a little too cute by half and try to run all these things in their heads, or they create a Frankenstein Excel model. And the reality is, is this has been solved. You know, I strongly suggest you look for a professional just to get this, because this is a significant inflection point, this sort of mid 60 ish, where you're having all of these decisions come to fruition. And as Wade said, we're kind of just building, we're scaffolding here into the the Roth conversion discussion, right? And these are all things that will help determine that in a in a smooth way,

Wade Pfau 36:23
absolutely, absolutely. And then the next episode, we'll get into another one of these, which is preferential income stacking. It's a lot of fun, so stay tuned. All right. Everyone. Catch you later.

Bob French 36:36

Bye. Wade and Alex are both principals of McLean Asset Management and retirement researcher, both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only, and are not intended to provide specific advice or recommendations for any individual or on any specific securities to determine which investments may be appropriate for you, consult your financial advisor. All investing comes with risk, including Risk of Loss past performance does not guarantee future results. You