Episode 165: Tax Planning Essentials for Retirees

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Retirement income, tax planning, Roth conversions, long-term capital gains, funded ratio, retirement income challenge, financial planning, Medicare surcharges, qualified charitable distributions, medical deductions, tax mapping, retirement researcher, financial advisors, investment strategies, tax impact.

SPEAKERS
Wade Pfau, Alex Murguia, Briana Corbin, Bob French

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.

Briana Corbin 00:41
Gosh, Don't you just love tax planning in retirement, because nothing quite says romance like running the numbers on your Roth conversions. But don't worry, Wade and Alex are here to make sure Uncle Sam doesn't end up as your most expensive Valentine, or at least a debate passionately about it for the next so 35 to 45 minutes, take it away. Alex.

Alex Murguia 01:07
Hey everyone. Welcome to retire with style. I'm Alex, and I'm here with my good friend and trusted companion, Wade Pfau. Hello everyone. Hello, Wade, and today we've got an action packed uh episode on tax planning, so we'll buckle up. But before then, just want everyone to know that on March 10 through the 13th, from 12 to two o'clock, we are having our retirement Eastern time. Thank you. We are having our retirement income challenge. Think of it like a juice challenge only for retirement income No, it's really to get everyone getting going. For all of you that had those New Year's resolutions and you're still thinking about opening them up and executing, well, we've got a great challenge for you to get that ball rolling. Wade, what are we going to cover in the Retirement Income Challenge?

Wade Pfau 02:03
Well, we're if you have not had a chance to take the RISA before, you'll have a chance to do that. If you've taken the RISA, that's fine as well. We'll talk about the RISA, and then we'll give everyone access to our funded ratio tool throughout the week, and we'll talk about how to use it. We use the funded ratio to calculate whether or not you are on track for retirement, whether you have sufficient assets, and that can include future earnings and so forth, but whether you're on

track to enjoy the retirement in terms of being able to meet the expenses you have in mind to have a great retirement. And if anyone would like to join us for that, it's four days, two hours a day for four days, lots of homework too, between the funded ratio. It's at retirement researcher.com/ric

Alex Murguia 02:47
and I highly encourage everyone to sign up quickly. This, these we get, we don't close it because it's a zoom thing, but we have, you know, it's usually well over 400 folks that take us up on this, and at the end of the week, it's very gratifying, because we really go through we create 350 you know, plus or minus financial plans. And so that's something that actually kind of gotten a kick out of that weight over the years to be able to have that kind of impact. So please join us on this. It's we run these about four times a year, and it's I enjoy tremendously. Do you wait?

Wade Pfau 03:26
Yeah, absolutely. It's really good chance to interact with folks and hear what's on everyone's minds. And this is intended more we have a split audience. This is more for not financial advisors who are listening, but more for the the end, retirees themselves who are trying to plan for their own retirements. Yeah, although

Alex Murguia 03:45
interesting, right? How we become the advisors, advisors over time, where we picked up, you know, plenty of folks interested in our services, simply from advisors that join this and they're like, Hey, by the way, I need help for my own stuff. But that's a side note for sure. Yeah,

Wade Pfau 04:00
advisors want to plan their own retirements. They're welcome to join us. It

Alex Murguia 04:04
happens more often than you think, but thanks. The other piece is your retirement planning guidebook is out. Just a reminder for everyone. You want to give everyone a quick snippet

Wade Pfau 04:15
on that sure the 2025, update of the retirement planning guidebook is now available through your favorite book retailers. If you want an actual physical copy, Amazon's the place for ebooks. You've got a whole host of options. They're all listed at books to read.com/retirement and that's the number two. So books the number two read.com/retirement

Alex Murguia 04:39
and Wade, I love your little Vanna White impersonation there when you wade, has, for those of you listening, wait, wait, has like his books on the back. It's a total flex move. He has a book jump, and he has his books over his right hand shoulder, and he gestured with his hands. A LA. Vanna White, hilarious. All right. Right? And so let's get cooking for today's episode. What's on what's on track for today? Yeah,

Wade Pfau 05:05
give me a tea for tax planning. Alex

05:08

T

Alex Murguia 05:11
I'd like to solve that. Wade,

Wade Pfau 05:15
all right, but yeah, the idea today is so we've talked a lot in the past about tax planning, tax maps, looking at, is there an opportunity to do a Roth conversion, or maybe to realize some long term capital gains, especially at a 0% tax rate? We've talked about how the great software that's out there, Joel Sasser, has COVID Some has created the software for financial advisors, but it's price for financial advisors. So the do it yourself community doesn't really have a lot of options in terms of good software to look at that. I do all my programming in MATLAB. It's not interactive for other people to be able to use that. But really been working on this idea of, is there something I could create in Excel so that we have an interactive spreadsheet? And that's not going to solve the lifetime problem, but for one year, you kind of have a chance of what would be the overall impact of doing different tax planning type decisions, if I voluntarily get some income, or if I'm thinking about, should I contribute to a tax deferred account or the Roth account, what are the overall tax impacts of these types of decisions, and since that all worked out, well, I'm going to do a workshop on that for our retirement researcher Academy, which is our paid membership site that we have as well. We haven't talked about that a lot on the show, but we do monthly workshops, and this month, I'll be talking about this tax map calculator, and people have a chance to hear how that works and use it for themselves. And I think it can be really helpful on a year by year basis, of making big picture decisions about Roth conversions, long term capital gains harvesting and so forth, yeah,

Alex Murguia 06:54
and so in the show notes, we'll have a link for the retirement income challenge. I highly suggest you take us up on

Wade Pfau 07:00
that, distinct from whatever, yeah, that's distinct from what we're talking

Alex Murguia 07:04
about. There's the retirement planning guidebook, which is, you know, ever present on Amazon and wherever books are sold, as you like to say, Wade, and the workshop on tax planning with Wade's calculator, where, you know, really breaking it down for his tax mapping spreadsheet. We're going to have a workshop on that. And part of the reason is too there's only so much we can do on this podcast. Using your ears, it's a little too tough to break down spreadsheets and the like. So That's February the 19th, and that's Wade is not wrong when he says that it's a highly desirable session, because I think directionally, you can be pointed in a lot of good directions. That being the case. Wade want to kick off this episode and probably preview a lot of what's going to be in the workshop, but I think we can handle some nice details

Wade Pfau 07:55
Absolutely. Yeah. And so we have run a tax planning arc recently. So if you go back within the last 20 episodes of the podcast, there's detailed episodes about a few different things that I'm just going to remind everyone about, rather than going into detail about it. But what the this tax map calculator will account for as you generate ordinary income or the preferential income, the

term I use for the long term capital gains or qualified dividends. The overall tax impact that has not just with federal income tax rates, but with how that would impact if you're have claimed Social Security the impact on the percentage of your Social Security benefits that are taxed. That's the Social Security tax torpedo. We also include the Irma surcharges. That's with Medicare, if you're at least two years away from claiming or from claiming beginning Medicare, how that could impact the premiums that you pay two years later. That's the the Medicare potential surcharges on your Part B and Part D, premiums, the net investment income surtax of that three and a 3.8% surtax accounting for the idea that long term gains and qualified dividends, your preferential income stacks on top of your ordinary income. And so if you're doing a Roth conversion, that could also uniquely push long term gains into a higher bracket as well, separate from your ordinary income. So including those impacts. And then the thing that's also new, as I was doing the calculator, I realized this is something I hadn't really talked about before, but it's pretty easy to also include, and that is, if you're itemizing and have deductible medical expenses, there's a rule that the deductible medical expense, the qualified medical expenses, In excess of 7.5% of your adjusted gross income are what you're able to deduct. And so you have this issue, as your adjusted gross income increases, the amount of your medical expenses that you can deduct declines. And as I was creating the Excel version of this, I did include deductible medical expenses. As part of the analysis, and so that can the loss of those subsidies. It's that one. It's not as hard as it might sound, it's if I generate another dollar of ordinary income and I'm itemizing. So if you're just taking a standard deduction, this doesn't matter, but if you have significant medical expenses that are qualified, you're itemizing your tax returns. If I generate another dollar of ordinary income that will reduce the deductible amount of my medical expenses by seven and a half cents. So it's really $1 of ordinary income is causing a tax impact of like $1.07 and a half cents. Yeah, or if it's $1,000 then we'd be talking about $1,075 is the practical impact of that, and then you just multiply that by your marginal tax rate at that point. So if I'm in the 10% tax bracket, and I'm losing deductible medical expenses here, then it's really a 10.75% marginal tax rate. If I'm in the 12% bracket, it's like a 12.9% marginal tax rate. 22% bracket. I think that one was 23.9% it's just the it's 22% times the 1.075 to let you know what your overall tax impact is, if you're losing deductions as you generate more income. So those, those are the factors, and then we're just going to use those to understand the the tax impacts of different decisions.

Alex Murguia 11:32
Okay, and are there any questions that you know, practical questions that someone can answer from this, like, Should I, should I do a Roth conversion, or gains harvest at 0% rate?

Wade Pfau 11:42
Yeah, I think that's an important one to start. And this is also something in the past, I've talked more about prioritizing Roth conversions, and I would get pushback from listeners saying, Maybe you should put more emphasis on generating long term capital gains at 0% and working on this calculator, it's, it's a lot easier for me to look at different cases quickly with this calculator than it is with my MATLAB programming code. So it does make it easier to start digging into this more. And yeah, I can kind of see the the point of like, let's just talk about a simple scenario here. So it's pre claiming Social Security. Say you're 62 years old, so you're not claiming Social Security yet, because you're going to delay. You're not yet worried about the Medicare Irma surcharges. You're retired, so maybe you've got, you know, 10 $20,000 of income from other sources, but you've got a long runway here where you can make some decisions if you're taking the standard deduction, you can get up to now, it's with ordinary income, $126,000 $126,700

ordinary income is that that's the right number, I think. No, no. Sorry, that would, that would be $126,950

Alex Murguia 13:02
before you corrected that way, because I was, I was throwing somebody, somebody into a tizzy.

Wade Pfau 13:09
Listening would have definitely caught that. I'm sure we've got some, some Eagle eared listeners. Yes,

Alex Murguia 13:15
I'm well aware of that. Oh, no. Well, that a bat.

Wade Pfau 13:26
But, yeah, it's the you're with ordinary income. You go through your standard deduction, and then 10% bracket, and then the 12% bracket, and if you're just taking the standard deduction, that gives you that opportunity for 126,000 and your I guess, and you're under age 65 so you don't get those extra additional standard deductions, but $126,950 if you're generating long term capital gains, or you had including your qualified dividends, you can get All the way up to $129,900 before you pay any taxes. At that point, you if all your ordinary income falls within the standard deduction, the whole runway up to 129,900 could be filled with long term gains, and again, your pre Social Security, pre Irma surcharge concerns, this is still outside of where the net investment income surtax would be an issue and so forth. We're assuming you don't have qualified medical expenses. Give a 0% tax rate, potentially, unless there's other things in the tax code that haven't been factored in, or if, if you are using the Affordable Care for health insurance, that would be something to consider so you could potentially pay no tax on a lot of long term capital gains there.

Alex Murguia 14:45
So to me, the point is that this is an interesting scenario that you said, but this points to the potential use cases that you could do within that calculator regarding gains harvesting. If. Well,

Wade Pfau 15:01
right, right. And so you're kind of your choice here. And the example that I created to demonstrate this for the workshop, they did have $12,000 of other income, the interest income, different things, whatever it is, but then they had a runway. They could have more than $114,000 of additional income. And in the past, I would have said, probably in most cases, want to emphasize Roth conversions for that, if you were targeting any tax rate at higher, 12% or higher, you'd go up to the end of the 12% bracket with that, you'd be paying 11,000 more than $11,000 of taxes on a Roth conversion to get you up to the beginning of the 22% bracket, if you instead, just took an opportunity to harvest gains. So I've got these long term gains. I'm going to realize them, capture them, sell the asset, and immediately repurchase it, which you don't have any wash sale rules or anything. When you're harvesting gains instead of losses I generate, I increase the cost basis of my investments. That will potentially be helpful in the future to reduce the tax impact in the future. And I could get up to that same general level there. There's a $250 difference between them, but that same area of a lot of income there with no tax on it, increasing the cost basis. And I'm more open to the idea of doing that, the only kind of the way that could backfire if you end up not living very long you do get that step up in the basis of death

and so forth that you would there, you would otherwise not really have needed to do this because you got this step up, but it

Alex Murguia 16:42
doesn't become a you problem. It becomes the other person's problem, I guess,

Wade Pfau 16:47
right, right? But unless you're really overfunded, so that you're kind of in a situation where you're never going to have to sell shares to meet expenses, which is probably fairly atypical, I agree, you might want to go ahead and realize these gains is 0% increase your cost basis, and that can be another way to get you better set up for future tax planning opportunities, especially to be more prepared to not have social security be taxed as heavily, to make sure RMDs don't have a big as big of impact for you to help avoid those Medicare surcharges and so forth at a later point in retirement. So do I do the Roth conversion and pay $11,000 in taxes, or do I do the long term gains and pay 0% or $0 in taxes? I'm more open to the idea. In the past, I would have said probably just do the Roth conversions, but I've been convinced by my various folks who saying, Well, maybe you just want to take the long term gains and harvest that at a 0% rate. Yeah,

Alex Murguia 17:49
because then when you take the end The point being that, again, atypical people are not necessarily going to die with those holdings. They're going to they're going to take distributions from them. And if your basis goes to, you know, if you don't have any basis anymore on it, then obviously the capital gains tax in the future, when you take sustainable withdrawal rates are de minimis at that point.

Wade Pfau 18:10
Yeah, yeah, the higher your basis, the less you have to worry about the tax impact of selling shares to meet extended that's what

Alex Murguia 18:17
makes this very attractive from your standpoint, but again, it's a, it's a, it's a break even, like anything, right? It's a break even. When, when does it make sense? Etc. And so you've positioned it to do, to do, use position the calculator, if you will. And I'm not doing it justice by calling it a calculator, but it's an Excel spreadsheet, so it's hard to say more than that, but it's, you know, that's one use case. Are there any other use cases that that you found useful for this I have here on my list, offsetting a medical deduction,

Wade Pfau 18:49
yeah, yeah. And that's for the calculator. I initially was thinking mostly in terms of Roth conversions, but I set it up for you to be able to look at both Roth conversions and gains harvesting, and then you've got the flexibility to decide which way to go with that. But yeah, the next one would be offsetting a medical deduction. I did kind of give the punchline to that already, which

Alex Murguia 19:11
beginning I know I was debating, but you came in hot. So people may not have been like mentally prepared for for the you know, the faux facts, so maybe

Wade Pfau 19:25
in the retirement planning guidebook, I assume they take the standard deduction, so this issue doesn't apply. But if you have large medical expenses so that you're able to actually itemize on your tax returns, you have that rule only the medical qualifying medical expenses in excess of seven and a half percent of your AGI are deductible. So if I have these, if I'm deducting medical expenses, and then I decide to do a Roth conversion, say, just $1,000 Roth conversion, not only do I increase my income by $1,000 but I reduce my deduction. In by $75 so in practical terms, I'm going to be paying taxes on another $1,075 and so then it's just a matter of, you're going to face a slightly higher marginal tax rate again, if I'm in the 10% bracket by also losing out on the deduction, the effective marginal tax rate is 10.75% if I'm in the 12% bracket, it's 12.9% if I'm in the 22% bracket, it's 23.9% I think have that number written down somewhere, but it's just the it's 1.075 times the marginal tax rate would give you the actual effective marginal tax rate.

Bob French 20:44
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. There

Alex Murguia 21:23
you have it all right. So that was the medical stuff. Going back to the tweet mentioned, should I convert Roth or the like, this was convert Roth or harvest gains. The other piece is, let's say you're contributing and I get this. This is one of these Mount Rushmore questions that we get all the time, 401 K, or Roth 401, K with the with the calculator, take into consideration that,

Wade Pfau 21:50
yeah, yeah. So it's not designed. I mean, the original idea was to think more about Roth conversions. But you can,

Alex Murguia 21:56
before you get going the there are many calculators that you can get, like dinky town and stuff like that, consumer related calculators that may do something quick and dirty. But as you answer this, I think it would be interesting for those folks to realize that this isn't just like a one of those lead magnet calculators that you see on like, you know, those banking sites or whatnot, to get you to do, you know, some, some other thing. And so if you don't mind, like, what, what? What, above and beyond did the contribute to 401 k versus Roth 401 k is included in this to really give it the sophistication it needs that you don't really see in most common denominator consumer calculators, if you will.

Wade Pfau 22:41
Well, it's just going to look at the impact with all these other considerations, although, if you're still in your career, maybe some of these other like the Social Security benefits and so forth, aren't relevant at that point, but it's, it's a quick and easy way to see what the overall impact

would be, including the capital preferential income stacking. That could potentially be a factor that you might not have been thinking about. And so are you

Alex Murguia 23:04
going to realize, I know you've mentioned this in previous episodes, and we do talk about this in previous episodes when we do our tax planning arc, but just because it's, it's, it's a lot of syllables to digest, preferential income stacking,

Wade Pfau 23:18
yeah, that's the long term capital gains and qualified dividends that add on top of your ordinary income when you're determining and so the issue is, then, if I generate more ordinary income, maybe my gains were all in the 0% bracket, still, but that could push some of them into the 15% bracket. And so my I'm not only being taxed on my ordinary income, but I'm also starting to be taxed on my preferential income as well. And that can be the double whammy. If I'm in the 12% bracket ordinary income, but I'm pushing gains from the zero to 15% bracket as well, then I have a 27% effective marginal tax rate. And accounts for that, I guess that's probably the main thing. It also does account for that would be relevant when you're working and thinking about where to contribute. And it just so, for example, we've got 53 year olds, so they're at the point they're going to make their full employee contribution to their 401 K, including the catch up contribution. So we're talking about $31,000 and so I look at, well, do I do an above the line deduction? Their their salaries, $125,000 they've got a few other income sources from like taxable interest and so forth. But do I make the traditional tax deferred contribution and get a $31,000 tax deduction for the year above the line. If I did that, I'd end up with income taxes at $8,100.60 $88,163 for the year if I instead. And the way, kind of the way you can gimmick the calculator to look at this is make. Above the line contribution, but then just do a Roth conversion on that same amount, and that brings it back into your adjusted gross income. And that's the way you can think of it, as being in the Roth account if I did that. So if I contributed to a Roth, I pay taxes on it today. Have it in the Roth. Don't have to worry about paying taxes again, the overall tax bill would have been $15,488 and in this case study that did include not just the ordinary income, the tax on the $31,000 but also how that would push some of their qualified dividends into the 15% bracket as well. So there's an extra $3,000 of taxes on that getting pushed into the 15% bracket for long term gains. So the overall effective marginal tax rate, if, if I put into a Roth instead of into a traditional IRA or traditional 401 K, it worked out in this example, this case study, 23.6% was the effective marginal tax rate, even though they were still in a point where they were working through the 10 and 12% federal income tax brackets, it was that preferential income stacking issue, as well as Part of their income falling into 22% that did cause the overall tax impact to be 23.6% so that's the number you'd want to think about. Should I get the tax deduction today, or should I put into the Roth today? It's not the fact that I might have been in the 12% federal income tax bracket. It's the fact that by putting that money into the tax deferred account, today, I could save 20 paying an extra 23.6% on those dollars in terms of the overall tax impact. And that number is higher than you might have thought it would have been. So that's how you can use the calculator for those types of decisions.

Alex Murguia 26:57
Excellent. So we got the we got the Roth conversion, gains harvesting. We have the contribute to a Roth or 401. K question, we've covered the medical deduction, stuff that you know obviously impacts your taxes. Uh, what about the charity charitable deductions, or qualified charitable deductions for an RMD? Yeah,

Wade Pfau 27:19
yeah. So we're now at a more advanced age. We're at an age where we are paying we have RMDs required minimum distributions. So say we're 77 years old, and I develop a case study to show around that. Suppose our RMD is $60,000 and coincidentally, we're just a very charitable minded household. So we're thinking to make a charitable donation in the same value as the RMD. I want to contribute $60,000 to charity. My RMD is $60,000 and so the purpose of talking about it in that manner is to just see the huge difference in the tax impact. I could, I have two options about how to donate it. I could do a qualified charitable distribution directly to the charity and in an amount, up to this year, $108,000 but we'll talk about doing it for the amount of the RMD make a $60,000 QCD, and then that RMD does not go into my adjusted gross income, and it can be helpful for tax planning purposes. Or I could take my RMD and then I could just donate $60,000 to charity and get the below the line deduction on the $60,000 to charity, there's a big tax to in this particular case study, and I actually, I could have probably designed it to show a bigger impact, but with the different income levels I put in and so forth, if that household just donated the money to charity and took the below the line deduction, their overall tax bill For the year ends up being a little over $7,000 but if they instead did the Q CD as a way to make that donation to charity, keep that money out of their adjusted gross income, their tax bill for the year was $3,700 so they cut their tax bill by $3,300 or In this scenario, by almost half by doing a QCD instead of just donating and taking a below the line deduction. So QCD is a really powerful is kind of the theme and punchline if you are charitable, charitably minded, taking advantage of qualified charitable distributions when you're at least age 70 and a half, and especially as a way to keep that RMD out of your adjusted gross income, can be more powerful and effective than donating directly to charities to cash contributions from other resources.

Alex Murguia 29:58
No, that's impactful. Yeah, I mean, from a percentage standpoint, that reduction is beyond significant, and you're paying it forward, making a difference, right? You're doing good. You're doing good, all right? And so again, the workshop is when? Again, wait, when is it?

Wade Pfau 30:18
Well, the workshop if you're an Academy member. So the workshop does require being part of the academy. That's February 19.

Alex Murguia 30:25
February 19, then. So if you want to get a real detailed breakdown of this, spreadsheets galore, and see Wade given this a test drive, join us. I think you'll enjoy it quite a bit. And it's in the show notes, along with the Retirement Income Challenge. That means,

Wade Pfau 30:45
go on, yeah, and if you're thinking before joining the academy, if you just want to get a better feel for what it might be like, the retirement income challenge really is meant to provide that test drive and giving you that access to the funded ratio working with you to build your plan on a one to many basis. And that's March 10, yeah,

Alex Murguia 31:03
just to give you a sense of what we do, yeah, the first day is usually resa driven. We talk about the philosophy, the framework, what to do. Homework that night is, take the RESA. The next

day, we interpret the RESA, you know, with all possible scenarios and which will include whatever you know, one of you folks will be in one of those scenarios. We'll talk about how to, how to sort of reconcile differences when couples take it and find a middle ground the next day, which is the Tuesday night, the homework is to fill out the funded ratio. We'll, you know, we have an app for that on the site. And then Wednesday, we discuss the same thing. We discuss interpretations of funded ratios, and how that the RESA, translates into the funded ratio, and how that then translates into actually putting a strategy together. But again, it's a one to many. We just talk about many scenarios which invariably will will cover 95% of the folks taking that. And then on the final stretch, we go into the softer side of retirement, transitioning into retirement, and how that is, believe it or not, that last section is probably the one that's favored the most by all of us. As much as Wade and I are into numbers and the like, it really is the existential sort of what now that people really gravitate towards that makes a difference. And in the final segment of this podcast, where we're doing is we're trying to be, you know, significantly more interactive with our listeners. And as you know, we reap we republish these in YouTube, on YouTube, on retire with style YouTube channel. So we'll put that in the show notes as well. I highly recommend everyone subscribes to that, because we'll be doing a lot more things there, and especially with interacting. And we pulled out a question there that I thought made a lot of sense. Well, Wade, actually pulled it out then we thought it makes good sense to review, and we'll go through that one. Wade, you want to kick it off?

Wade Pfau 33:00
Yeah, and it's still the case that probably 95% of our listeners are through a traditional podcast app, but we've been posting these on YouTube, and the nice feature there is you can make comments on YouTube, which you can't really do with traditional podcasting apps, and we always appreciate those comments. I know there's some that Alice really loves, but yeah, it's a good opportunity if anyone listens to some of the other podcasts out there, but stuff, you should know, they always end with an email from a listener. And we thought that's a great idea, either as a question or a comment on a past episode. And this first one I picked out was more a good reminder of from a past episode. So in episode 163, Chris, and that's where we're talking about the changes that took place with retirement planning in 2025 Chris pointed out so I was discussing the $2,000 out of pocket cap this year on Part D prescription drug costs for prescriptions covered through your Part D plan in the retirement planning guidebook, there is a lot more detail about this. Medicare has the Plan Finder tool. You should put in your your formulary. I'm sorry, you should put in the list of drugs you use to try to match as possible, as close as possible to what you may use the following year. And then you get to see whether or not that prescription is covered, and at which tier of coverage, and so forth, to try to estimate your overall costs. Now, when I was talking about that in the episode, I was a little bit loose, so Chris provided a great reminder to us that regarding the $2,000 annual cap for Part D coverage, only the cost of drugs listed in your own party policy drug formulary count towards a calf. The choice of policy is critical. Lower premium policies tend to not cover expensive drugs. The patient has to try to predict what drugs they may be prescribed in the years ahead. And thank you. That's a I'm sorry in the year ahead. And that, thank you, Chris, that's a great comment. I think in the episode, I was a little bit. Looser with my language, and just talked about a $2,000 cap on Medicare covered drugs. But there is no such thing as a list of drugs covered under Medicare. Each party plan can have its own list, and so the $2,000 cap only applies to drugs covered on the list of your party plan. And so it is very important that you choose the plan that hopefully will have as close as match of making sure it covers at reasonable thresholds of payment the drugs you may need to use in the following calendar year. And that's something

you're doing during each open enrollment period, between October 15 and December 7 of each year, you go to that Medicare Plan Finder tool, you put in the list of prescriptions that you've you think you may need to use in the following year, and you compare plans on that basis.

Alex Murguia 35:52
There it is. All right. All right. Wait, I think that's a wrap. Sure. Is All right, everyone. Thank you for your time. We really appreciate you inviting us to be part of your day, and we'll catch you next week. What do you think? Wait, that's the nicer and gentler. Alex, thank

Wade Pfau 36:13
you for making us part of your lives. I

Alex Murguia 36:16
didn't know what I was saying. I was just like, All right, everyone. We'll catch you next week on retirement style.

Bob French 36:24
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 a risk, including Risk of Loss past performance, does not guarantee future results.