Summer 2019

EpicCapital

INSIGHTS

Everyone has a story. Let your legacy tell yours.

Inside this Issue

FEATURES

Three Key Questions to Answer Before Taking Social Security

When to start? Should I continue to work? How can I maximize my benefit?

Social Security will be a critical component of your financial strategy in retirement, so before you begin taking it, you should consider three important questions. The answers may affect whether you make the most of this retirement income source.

When to Start? The Social Security Administration gives citizens a choice on when they decide to start to receive their Social Security benefit. You can:

* Start benefits at age 62.
* Claim them at your full retirement age.
* Delay payments until age 70.

If you claim early, you can expect to receive a monthly benefit that will be lower than what you would have earned at full retirement. If you wait until age 70, you can expect to receive an even higher monthly benefit than you would have received if you had begun taking payments at your full retirement age.

When researching what timing is best for you, It's important to remember that many of the calculations the Social Security Administration uses are based on average life expectancy. If you live to the average life expectancy, you'll eventually receive your full lifetime benefits. In actual practice, it's not quite that straightforward. If you happen to live beyond the average life expectancy, and you delay taking benefits, you could end up receiving more money. The decision of when to begin taking benefits may hinge on whether you need the income now or if you can wait, and additionally, whether you think your lifespan will be shorter or longer than the average American.[1,2]

Should I Continue to Work? Besides providing you with income and personal satisfaction, spending a few more years in the workforce may help you to increase your retirement benefits. How? Social Security calculates your benefits using a formula based on your 35 highest-earning years. As your highest-earning years may come later in life, spending a few more years at the apex of your career might be a plus in the calculation. If you begin taking benefits prior to your full retirement age and continue to work, however, your benefits will be reduced by $1 for every $2 in earnings above the prevailing annual limit ($17,640 in 2018). If you work during the year in which you attain full retirement age, your benefits will be reduced by $1 for every $3 in earnings over a different annual limit ($45,360 in 2018) until the month you reach full retirement age. After you attain your full retirement age, earned income no longer reduces benefit payments.[2,3]

How Can I Maximize My Benefit? The easiest way to maximize your monthly Social Security is to simply wait until you turn age 70 before claiming your benefits.[1,2]

The Gift Tax

Not all gifts are taxable.

Meet Hugh. He's a retired film stuntman who, after a long career, is enjoying his retirement. Some of what he's enjoying about his retirement is sharing part of his accumulated wealth with his family, specifically his wife and two sons. Like many Americans, Hugh likes to make sure that, when he's sharing that wealth, he isn't giving the I.R.S. any overtime.

Hugh knows about the gift tax and knows how to make those gifts without running headlong into a taxable situation. This is Hugh's responsibility because the I.R.S. puts the onus on the giver. If the gift is a taxable event and Hugh doesn't pay up, then the responsibility falls to the beneficiaries after he passes in the form of estate taxes. These rules are in place so that Hugh can't simply, say, give his entire fortune to his sons before he dies.

Exemptions for family and friends. It would be different for Hugh's wife, Barbara. The unlimited marital deduction means that gifts that Hugh gives to Barbara (or vice versa) never incur the gift tax. There's one exception, though. Maybe Barbara is a non-U.S. citizen. If so, there's a limit to what Hugh can offer her, up to $155,000 per year. (This is the limit for 2019; it's pegged to inflation.) [1,2]

The gift limit for other people is $15,000 and it applies to both cash and noncash gifts. So, if Hugh buys his older son Tony a $15,000 motorcycle, it's the same as writing a $15,000 check to his younger son, Jerry, or gifting $15,000 in stock. Spouses have their own separate gift limit, as well; Barbara could also write Jerry a $15,000 check from the account she shares with Hugh.[1,2]

Education and healthcare. The gift tax doesn't apply to funds for education or healthcare. So, if Tony breaks his leg riding that motorcycle, Hugh can write a check to the hospital. If Jerry goes back to college to become a chiropodist, Hugh can write a tuition check to the college. This only works if Hugh is writing the check to the institution directly; if he's writing the check to the beneficiaries (i.e. Tony and Jerry), he might incur the gift tax.[1,2]

The Lifetime Gift Tax Exemption. What if Hugh were to go over the limit? The lifetime gift tax exemption would go into effect, and the rest would be reported as part of the lifetime exemption via Form 709 come next

April. Unlike the annual exemption, the lifetime exemption is cumulative for Hugh. Currently, that lifetime exemption is $11.4 million.[1,2]

Being a stuntman and an active extreme sportsman, Hugh is concerned about his estate strategy. Were he to borrow Tony's motorcycle and attempt to jump the Snake River Canyon, what would happen if he didn't make it across? If that unfortunate event occurred in 2019, and he gave $9 million over his lifetime, and his estate and all of that giving totaled more than $2.4 million, the estate may owe a federal tax and possibly a state estate tax. Barbara would have her own $11.4 million lifetime exemption, however, and since she is the spouse, estate taxes may not apply.[1,2]

Any wise stuntman will tell you, "leave this to the experts." Talk to a trusted financial professional about your own plans for giving.

TOD or Living Trust?

A Look at two basic methods for shielding assets from probate.

How do you keep assets out of probate? If that estate planning question is on your mind, you should know that there are two basic ways to accomplish that objective.

One, you could create a revocable living trust. You can serve as its trustee, and you can fund it by retitling certain accounts and assets into the name of the trust. A properly written and properly implemented revocable living trust allows you to have complete control over those retitled assets during your lifetime. At your death, the trust becomes irrevocable and the assets within it can pass to your heirs without being probated (but they will be counted in your taxable estate). In most states, assets within a revocable living trust transfer privately, i.e., the trust documents do not have to be publicly filed.[1]

If that sounds like too much bother, an even simpler way exists. Transfer-on-death (TOD) arrangements may be used to pass certain assets to designated beneficiaries. A beneficiary form states who will directly inherit the asset at your death. Under a TOD arrangement, you keep full control of the asset during your lifetime and pay taxes on any income the asset generates as you own it outright. TOD arrangements require minimal paperwork to establish.[2]

This is not an either-or decision; you can use both of these estate planning moves in pursuit of the same goal. The question becomes: which assets should be transferred via a TOD arrangement versus a trust?

Many investment & retirement savings accounts are TOD to begin with. The beauty of the TOD arrangement is that the beneficiary form establishes the simplest imaginable path for the asset as it transfers from one owner to another. The risk is that the instruction in the beneficiary form will contradict something you have stated in your will.

One common situation: a parent states in a will that her kids will receive equal percentages of her assets, but due to TOD language, the assets go to the kids not by equal percentage, but by some other factor, with the result that the heirs have slightly or even greatly unequal percentages of family wealth. Will they elect to redistribute the assets they have inherited this way (in fairness to one another)? Perhaps, and perhaps not.

How complex should your estate planning be? A conversation with a trusted legal or financial professional may help you answer that question and illuminate whether simple TOD language or a trust is right to keep certain assets away from probate.

Consider an IRA Charitable Rollover

If you want a tax break and want to help a nonprofit, this may be a good move.

Have you ever wanted to make a major charitable gift? Would you like a significant federal tax break in acknowledgment of that gift? If so, an IRA charitable rollover might be a good option.

If you are age 70½ or older and have one or more traditional IRAs, you may want to explore the potential of this tax provision. In the language of federal tax law, it is called a Qualified Charitable Distribution (QCD) – a direct transfer of up to $100,000 in IRA assets to a qualified charity.[1]

An IRA charitable rollover may help you lower your adjusted gross income (AGI). That may be a goal in your tax strategy, especially if your AGI is large enough to position you for increased Medicare premiums, greater taxation of your Social Security benefits, or exposure to the 3.8% investment income tax and the Medicare surtax.

Up to $100,000 may be excluded from your gross income during the year in which you make the gift. The gifted amount also counts toward your Required Minimum Distribution (RMD).[1,2]

By the way, this $100,000 annual QCD limit is per individual taxpayer. If you are married, you and your spouse may gift up to $200,000 in a year through IRA charitable rollovers. Imagine lowering your household's AGI by as much as $200,000 in a tax year.[2]

The Internal Revenue Service will not let you claim the amount of a QCD as a deduction on Schedule A. (That would amount to a double tax break.)[1]

You need not be rich to do this. When many people first learn about the IRA charitable rollover, they think it is only for multimillionaires. That is a misconception. Even if you do not think of yourself as wealthy, a QCD could prove a significant element in your tax strategy.

> *"If you pledge a donation to a **qualified charity or nonprofit**, an **IRA charitable rollover** can be used to satisfy your pledge."*

How does it work? Logistically speaking, an IRA charitable rollover has to unfold in a certain way. The custodian or trustee overseeing your IRA must either make the gift to the charity for you or give you a check made payable to the charity for the amount of the gift.[2]

Do not simply take a distribution from your IRA and then write a check to the charity. That does not qualify as a QCD. If you make this mistake, the money you have taken out of your IRA will simply be included in your gross income for the year, and you may not even be able to claim a charitable contribution deduction for your efforts.[2,3]

An IRA owner must be age 70½ or older to do this; the gifted assets must come from an IRA, or multiple IRAs, and are subject to RMD rules. (SEPs and SIMPLE IRAs are ineligible if an employer contribution has been made for the particular year.)[1,2]

The charity or nonprofit involved must pass muster with the I.R.S. It must be a public charity eligible for charitable contribution deductions; that is, it must qualify as 501(c)(3) eligible. It cannot be a donor-advised fund or a private foundation. The charity should provide you with a letter of acknowledgement of your gift, for federal tax purposes. If that letter is not quickly sent to you, be firm in requesting it. It should state that you have received no gift, reward, or benefit from the charity in exchange for your contribution.[2,3]

If you pledge a donation to a qualified charity or nonprofit, an IRA charitable rollover can be used to satisfy your pledge.[2]

This tax break has been a boon to charities and IRA owners alike. Correctly performed, a charitable IRA rollover may help to lessen tax issues while benefiting qualified nonprofit organizations.

The Details More People Should Know About Medicare

Before you enroll, take note of what the insurance does not cover and the changes ahead.

Misconceptions about Medicare coverage abound. Our national health insurance program provides seniors with some great benefits. Even so, traditional Medicare does not pay for dental care, vision care, or any real degree of long-term care. How about medicines? Again, it falls short.[1]

Original Medicare (Parts A & B) offers no prescription drug coverage. You may not currently take prescription medicines, but you may later, and can you imagine paying out of pocket for them? Since 2013, the prices of the 20 most-prescribed drugs for seniors have risen an average of 12% annually. Will Social Security give you a 12% cost-of-living adjustment next year?[1]

To address this issue, many seniors sign up for Part D (prescription drug) plans, which may reduce the co-pays for certain generic medicines down to $1 or $0. As private insurers provide Part D plans, the list of medicines each plan covers varies – so, carefully check the list, also called the formulary, before you enroll in one. Keep checking it, as insurers are permitted to change it from one year to the next.[1,2]

You may want a Medigap policy, considering your Part B co-payments. If you stick with original Medicare, you will routinely pay 20% of the cost of medical services and procedures covered by Part B. If you need a hip replacement or a triple bypass, you could face a five-figure co-pay. Medigap insurance (also called Medicare Supplement insurance) addresses this problem with supplemental Part B coverage. Premiums and services can vary greatly on these plans, which are sold by insurers.[1]

"State subsidies and Medicare savings programs are available to help households handle co-payments and deductibles under original Medicare."

If you want dental and vision coverage (and much more), you may want a Part C plan. Around a third of Medicare beneficiaries enroll in these plans, also called Medicare Advantage programs. The typical Part C plan includes all the coverage of Medicare Parts A, B, and D, plus the dental and vision insurance that original Medicare cannot provide. Medicare Advantage plans also limit beneficiary out-of-pocket costs for the services they cover.[1]

Part C plans may soon offer even more benefits. They will be allowed to include services beyond normal medical insurance beginning in 2019. Starting in October, they can reveal what new perks, if any, they have chosen to offer. Some of the new benefits you might see: coverage for the cost of home health aides, adult day care, palliative care, the installation of grab bars and mobility ramps in the home, and trips to and from medical appointments. The list of potential benefits could expand further in 2020.[3]

Few seniors who enroll in Part C plans switch out of them. If you enroll in one, you should realize that these plans are regional rather than national – so, if you move, you may have to find another Part C plan or return to traditional Medicare, with or without Medigap coverage.[1,3]

The Medicare Advantage Disenrollment Period is disappearing. A recently passed federal law, the 21st Century Cures Act, does away with this annual January 1-February 14 window. Beginning in 2019, there will simply be an annual Medicare Advantage Open Enrollment Period from January 1-March 31. During these three months, Medicare recipients will have the chance to either switch Part C plans or disenroll from a Part C plan and go back to original Medicare.[4]

Some Medicare Cost plans are being phased out. These plans, which offer some features of Medigap policies and some features of Medicare Advantage programs, are ending in certain counties within 15 states and in the District of Columbia. Enrollees are being left to search for new coverage.[4]

If you are financially challenged, you may have options. State subsidies and Medicare savings programs are available to help households handle co-payments and deductibles under original Medicare. Some non-profit groups offer pharmaceutical assistance programs (PAPs) to help Medicare beneficiaries pay less for medicines.[4]

Lastly, diabetics who use insulin pumps sometimes find they are better off with original Medicare as well as a Medigap policy, rather than a Part C plan. Some Medigap plans cover the entire cost of insulin. Many infusion treatments (such as chemotherapy) are also 100% covered by Medigap policies.[4]

If you would like to further discuss any of the topics written about in this newsletter, or inquire about any of our other services, please feel free to contact us

Citations:

Teaching Your Heirs to Value Your Wealth
1 - nerdwallet.com/blog/investing/take-social-security-benefits/ [5/18/18]
2 - thestreet.com/retirement/social-security/maximum-social-security-benefit-14786537 [11/20/18]
3 - fool.com/retirement/2018/12/01/4-things-you-need-to-know-about-filing-for-social.aspx [12/1/18]

The Gift Tax
1 - thebalance.com/gift-tax-exclusion-annual-exclusion-vs-lifetime-exemption-3505656 [2/9/2019]
2 - cstaxtrustestatesblog.com/2018/11/articles/estate-tax/2019-estate-gift-tax-update/ [11/19/2018]

TOD or Living Trust?
1 - investopedia.com/articles/pf/06/revocablelivingtrust.asp [3/7/2019]
2 - investopedia.com/terms/t/transferondeath.asp [4/25/2019]

Consider an IRA Charitable Rollover
1 - investopedia.com/taxes/can-i-use-money-my-ira-donate-charity/ [11/21/18]
2 - forbes.com/sites/bobcarlson/2018/04/13/why-retirees-should-make-charitable-contributions-from-their-iras [4/13/18]
3 - forbes.com/sites/frankarmstrong/2018/10/19/tax-magic-for-seniors-the-qcd [10/19/18]

The Details More People Should Know About Medicare
1 - forbes.com/sites/nextavenue/2018/07/10/avoid-these-big-medicare-mistakes-people-make [7/10/18]
2 - money.usnews.com/money/retirement/medicare/articles/2018-06-25/prescription-drug-costs-retirees-should-expect-to-pay [6/25/18]
3 - nytimes.com/2018/07/20/health/medicare-advantage-benefits.html [7/20/18]
4 - rd.com/health/healthcare/things-medicare-wont-tell-you/ [7/6/18]

EPIC CAPITAL

Where Experienced Advice Meets Actionable Ideas **INSIGHTS**

Questions, comments, and inquiries are welcome: info@EpicCapital.com

Visit us on the web at www.EpicCapital.com

EPIC CAPITAL
WEALTH MANAGEMENT
6135 Park South Drive – Suite 130
Charlotte, NC 28210