December 2023 Newsletter

Korbitz Financial Planning Newsletter

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An
AICPA Personal Financial Planning Section
member benefit

This newsletter has several articles, with a mix of tax and financial planning subjects There is a focus on health related expenses.

This month marks 15 years since I started Korbitz Financial Planning. My thanks to you, my clients, for helping me make that happen.

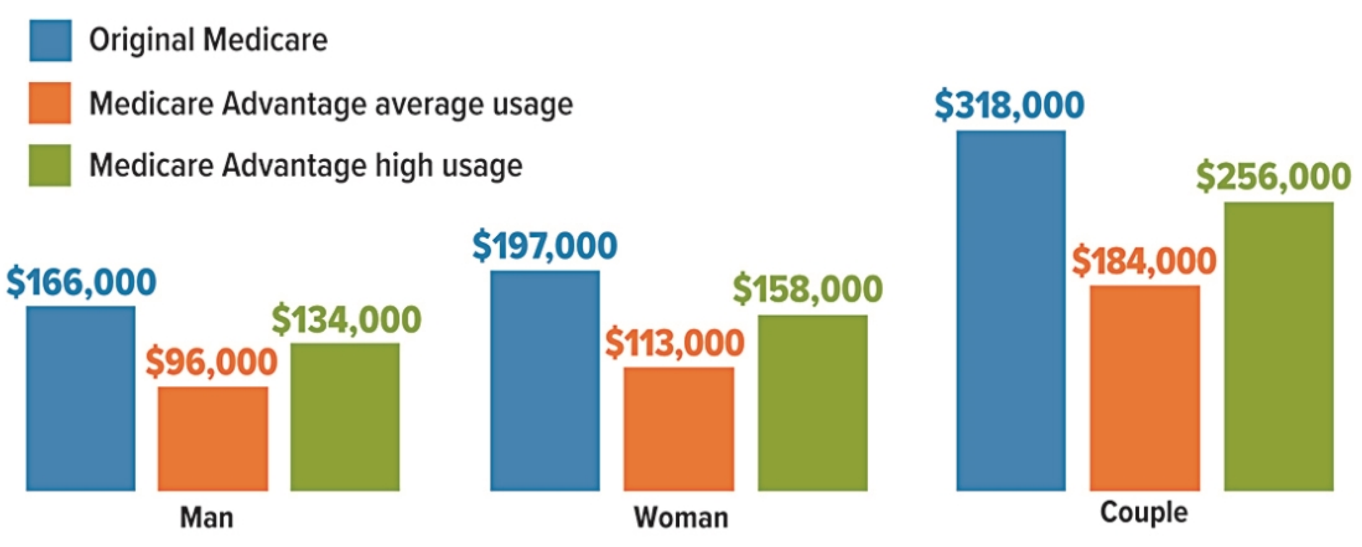
Wishing you a happy and healthy 2024!

Eric

Saving for Retirement Health-Care Costs

The chart below shows the savings that a man, a woman, and a couple who retired at age 65 in 2022 might need to meet retirement health-care expenses, assuming median prescription drug expenses. The Original Medicare estimate includes premiums for Medicare Parts B and D, the Part B deductible, out-of-pocket prescription drug spending, and premiums for Medigap Plan G, which would pay most other out-of-pocket costs.

Medicare Advantage Plans — offered by private companies under Medicare oversight — require the Medicare Part B premium and typically combine hospital, medical, and prescription drug coverage. They often have limited networks and may require approval to cover certain medications and services.



Source: Employee Benefit Research Institute, 2023. Projections are based on a 90% chance of meeting expenses and assume savings earn a return of 7.32% from age 65 until expenditures are made. Does not include vision, hearing, dental, or long-term care expenses. Some Medicare Advantage Plans require additional premiums, which are not included.

End of 2023 Potpourri

One year ago Congress passed the SECURE 2.0 Act. It had a number of provisions that will not or may not be happening as planned:

401k catch up for taxpayers earning over $145,000: This new rule REQUIRED that the "catch up" contribution available to wage earners 50 years old and older be put into a Roth 401k rather than into a pre-tax 401k. This provision has been delayed by the IRS due to the logistical problems that law imposes on employers. This provision was not enacted because Congress thought you would be better off putting money into a Roth 401k as opposed to a pre-tax 401k. Rather, it was enacted because it raised revenue. You pay tax sooner on money that goes into a Roth 401k as opposed to a pre-tax 401k. Most folks in this tax bracket are probably better off making the pre-tax contributions. Standby for future updates.

Inherited IRA Required Minimum Distributions: Congress in 2019 enacted the original SECURE Act. One of the provisions in that Act reduced the time period to distribute an inherited IRA from your remaining life expectancy to no more than 10 years. Due to continuing confusion about what Congress intended and what the IRS has said, the IRS has waived penalties for RMDs not taken in 2021, 2022 and 2023 for taxpayers who inherited IRAs in 2020, 2021 and 2022. Hopefully the IRS will issue a final set of rules on this issue in 2024.

529 to Roth Transfers: The SECURE 2.0 Act contains a provision which will be very beneficial to many clients over the coming years. Subject to a number of restrictions, a beneficiary can transfer leftover 529 Plan (EdVest in Wisconsin) money to a Roth IRA for the beneficiary. While I have not seen anything in writing about this yet, I suspect that many 529 Plan providers will not be prepared to do these transactions on January 1, 2024. The EdVest website does not yet even mention this new rule. If you plan to take advantage of this new rule, I would advise patience with the process.

Things to do before the end of year:

Make your charitable contributions, if you are itemizing, before year-end. Contributions made by 12/31, if you itemize, will be deductible in 2023.

Real estate taxes: I get the same question from many clients in December of each year: When should I pay my property taxes? My standard advice is to pay your property taxes in the same month you did last year (December and December, or January and January) so you don't double up on property taxes. If you don't itemize, it does not matter when you pay them, unless you live in Wisconsin. Wisconsin has a credit for property taxes paid and it is worth $300 so long as you pay at least $2,500 of property taxes during the year. Thus, if you follow my "pay your taxes at the same time each year" rule, you should be fine.

Fund your HSA, Roth IRA, 529 plans: Yes, you can fund an HSA or an IRA as late as April 15, but I suggest that you fund them during the tax year, if at all possible. It reduces confusion and the risk that you will miss making a contribution for 2023.

Solicitation by Vanguard and Fidelity Representatives.

I have heard several stories about Vanguard and Fidelity representatives becoming more and more aggressive with respect to selling clients their asset management services, or in some cases, products such as annuities. If you are reading this newsletter, you are likely a client of mine. I respectfully suggest that when offered these services by Vanguard, Fidelity or whomever, that you advise the representative that "I already work with a fee-only financial advisor, thank you." Getting advice from multiple sources usually results in confusion at best, and recommendations that are not compatible, at worst.

HDHP/HSA Pairing May Help Control Medical Costs

If your employer offers health insurance benefits, one of your options may be a high-deductible health plan (HDHP) with eligibility for a health savings account (HSA). These plans offer potential savings by encouraging you to make cost-effective choices in your medical spending. If you do not have employer-sponsored health coverage, you can choose from a variety of individual HDHPs, including plans through state or federal health insurance exchanges.

Lower Premiums, Higher Deductibles

Premiums for HDHP coverage are generally lower than for traditional preferred provider organization (PPO) coverage. In exchange, you pay a larger annual deductible before the plan begins to cover a percentage of expenses.

Certain types of preventive care, such as annual physicals, health screenings, and selected medications, may be covered without a deductible (in some cases, provided at no cost). HDHPs can also offer telehealth and other remote health-care services without a deductible through 2024. Regardless of the deductible, the costs for medical services may be reduced through the insurer's negotiated rate.

To protect consumers from catastrophic expenses, most health insurance plans have an annual out-of-pocket maximum above which the insurer pays all medical expenses. HDHP maximums are generally higher than those of traditional plans. But if you reach the annual maximum, your total cost for that year would typically be lower for an HDHP, with the up-front savings on premiums. If you have low medical costs, the lower premiums also will generally make an HDHP more cost-effective. For other scenarios, the cost-effectiveness of an HDHP may vary with your situation. Although an HDHP might save money over the course of a year, some consumers could be hesitant to obtain appropriate care because of the higher out-of-pocket expense at the time of service.

Triple Tax Advantage

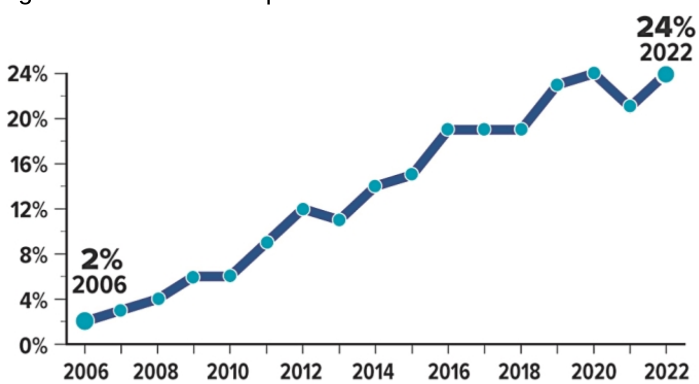
You must be enrolled in an HDHP to establish and contribute to an HSA, which allows investments within the account and offers three powerful tax advantages: (1) contributions are deducted from your adjusted gross income, (2) investment earnings compound tax-free inside the HSA, and (3) withdrawals are tax-free if the money is spent on qualified medical expenses (including dental and vision expenses). Some states do not follow federal tax rules on HSAs.

HSA contributions are typically made through payroll deductions, but in most cases, they can also be made directly to the HSA provider. In 2023, contribution limits are $3,850 for an individual and $7,750 for a family ($4,150/$8,300 in 2024), plus an additional $1,000 if the account holder is age 55 or older.

Although 2023 payroll contributions must be made by December 31, you can make direct contributions for 2023 up to the April 2024 tax deadline. Some employers contribute to an employee's HSA, and any employer contributions would be considered in the annual contribution limit.

Growing Trend

Percentage of covered workers enrolled in an HSA-eligible high-deductible health plan



Source: Kaiser Family Foundation, 2022

Saving for the Long Run

Many people use HSAs to pay health-care expenses as they go, but there are advantages to paying from other funds and allowing the HSA to accumulate and pursue tax-deferred growth over time. Assets in an HSA belong to the contributor, so they can be retained in the account or rolled over to a new HSA if you change employers or retire. Unspent HSA balances can be used to help meet health-care needs in future years whether or not you are enrolled in an HDHP; however, you must be enrolled in an HDHP to contribute to an HSA.

Although HSA funds cannot be used to pay regular health insurance premiums, they can be used to pay Medicare premiums and long-term care costs, which could make an HSA an excellent vehicle to help fund retirement expenses. After you enroll in Medicare, you can no longer contribute to an HSA (because Medicare is not an HDHP), but you can continue to use the HSA funds tax-free for qualified expenses. After age 65, you can withdraw HSA funds for any purpose without paying the 20% penalty that typically applies to those under age 65, but you would pay ordinary income taxes, similar to a withdrawal from a traditional IRA.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Medical Debt and Your Credit Report

It's no surprise that consumers are contacted by debt collectors about medical bills more than any other type of debt.[1] After all, the complex world of medical billing and collection practices is extremely difficult to navigate. Many people have trouble understanding what the various billing codes on a medical bill even mean.

Historically, this has led to consumers racking up unpaid medical bills because they were unaware of what they owed or were in the process of disputing what they owed to their health care provider. These unpaid bills were then often reported to credit bureaus, negatively impacting credit reports.

Fortunately, there have been changes to the way medical debt is reported on credit reports. As of July 1, 2022, the three nationwide credit reporting companies (Equifax, Experian, and TransUnion) no longer include medical debt that was paid after it was sent to collections.

The credit reporting companies have also increased the amount of time before medical debt in collections appears on credit reports, extending it from six months to one year. This additional time is meant to give consumers the opportunity to settle any disputed charges or work out a payment plan with their health care providers.

Finally, as of April 11, 2023, the credit reporting companies no longer include medical debt in collections of less than $500 on credit reports. It's estimated that with this last step, roughly half of those with medical debt on their credit reports will have it removed from their credit history.[2]

If you have unpaid medical bills, there are some steps you can take to make sure that they aren't negatively impacting your credit. First, check your credit report. You have the right to request one free copy of it every week from each of the three major consumer reporting companies at AnnualCreditReport.com.

Once you obtain your credit report, make sure that any medical bill that is under $500, less than a year old, or has been paid off no longer appears on your credit report. If you find a medical billing error (or any other error), you have the right to dispute it by contacting both the credit reporting company and the company that provided the erroneous information. You can also file a complaint with the Consumer Financial Protection Bureau at consumerfinance.gov.

1-2) Consumer Financial Protection Bureau, May 2023