MERITAGE
WEALTH MANAGEMENT

# Countdown to Retirement: Actionable Steps for Income, Healthcare and Tax Planning in Retirement

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## Have you been thinking about retirement for a long time?

You could take those long vacations you've been dreaming of, linger over a book and a second cup of coffee in the morning, or finally put some real, dedicated effort into improving your health and well-being.

## Sounds fabulous, doesn't it?

Besides the many wonderful benefits, retirement also brings some challenges related to finances, health, family and other issues. This guide introduces topics and changes you will face as you enter retirement, and suggests specific steps you can take to help ensure this new period of your life is secure and enjoyable.



# *Where* to Start?

Begin your retirement preparedness list by answering the following questions. The answers will help you clarify where you might need more thought and planning.

## Check off the boxes as you consider each topic:

### ❑ Where will I live?

Do I want to move?
Should I downsize?
Can I keep up with home maintenance?
Will I be close to the activities I want to pursue?
Are medical facilities nearby?

### ❑ What will I do?

Do I want to work either full-time or part-time?
Are there volunteer jobs I would like?
Will my hobbies keep me busy enough?
Will I miss the social aspects of working?
Could I end up with too much time on my hands?

### ❑ How much money will I need?

How will my current expenses change?
What specific costs may change, and by how much?
Have I created a retirement budget?
Will my assets last long enough?

### ❑ How much money do I have?

What is the status of my potential savings and income?
Am I contributing enough to my retirement accounts?
What are my Social Security options?

### ❑ What are likely health-related issues?

What is my life expectancy?
Will my medical coverage premiums and costs go up?
When should I enroll in Medicare?
Might I need long-term care at some point?

There are many other topics you will need to address, such as those related to family and elder care, the tax implications of Individual Retirement Accounts (IRAs) and retirement plan withdrawals, and whether you will simply have to work at least part-time. You may want to create a file so you can expand on your answers and keep additional resources.

Write down these and other questions you may have, and your answers. That information, along with the specific action steps in this checklist, will help you measure your retirement preparedness and develop your own action plan for success.



# Action Steps to Prepare

## ❑ Review expenses

Take a close look at your current expenses. Some will go away when you retire, such as commuting costs, buying lunch every work day, dry cleaning bills, and contributions to birthday or other gifts for co-workers.

Others may not change, such as housing costs, auto loans, and groceries. Still others will go up, or be new expenses, such as hobbies, more travel and entertainment, and additional costs in your new location if you move.

Outline how each of those expenses will likely change upon retirement, and prepare a budget. What is the net effect? Determining that will be very helpful in developing a better picture of your finances in retirement.

## ❑ Verify income sources

Learn what distribution options are available for your employer retirement plan accounts. Many plans provide for full or partial withdrawals, leaving your balance in the plan, and rolling over your balance to an IRA.

Action Step: Request the Summary Plan Description (SPD) for all of your current or past retirement plans (like 401(k), 403(b) or 457 plans) to find out your plan's options once you retire. Here are several ways you can obtain the Summary Plan Description for employer retirement plans:

1. **Contact the Plan Administrator:** Reach out directly to the plan administrator or human resources department of your current or former employer. They are required by law to provide the SPD upon request.
2. **Check the Employer's Website:** Some companies provide access to plan documents, including SPDs, through their employee or retiree portals.
3. **Request from the Plan Provider:** If the retirement plan is managed by a third-party provider (like Vanguard, Fidelity, etc.), contacting them directly can be another route to obtain the SPD. You can call the phone number on your statement to request the SPD or log into your account and look for the "plan information and documents" or "plan communications" section. The actual title of this portion of the website may vary depending on the third-party provider.
4. **Union or Employee Association:** If you were part of a union or employee association, they might have resources or contacts that can help you obtain the SPD.
5. **Contact the U.S. Department of Labor:** The Employee Benefits Security Administration (EBSA) can assist in obtaining the SPD if the retiree is having difficulty getting it from the employer. EBSA can be reached at 866-444-3272.

You may also have other retirement or pension plans that would provide income. Again, check with your Human Resources office if you are not sure. Also, if you have changed companies, remember to check with past employers to see if you have vested retirement plan account balances that were left behind. IRAs are also a common source of funds during retirement. Clarify the types of IRAs you have (Traditional or Roth) and the rules for making withdrawals.

Finally, look closely at your options for receiving Social Security benefits.

## ❑ Understand your Social Security benefits

If you delay beginning benefits beyond your full retirement age, your benefit will be increased. For example, if you were born in 1960 or later, your monthly benefit amount is increased by 8% for each year you delay benefits after reaching full retirement age, in this case age 67. These delay credits do not continue beyond your reaching age 70.

On the other hand, if you elect to begin receiving benefits before your full retirement age, they will be reduced. If your full retirement age is 67, for example, and you begin receiving benefits at age 62, the amount will be permanently reduced by 30%.

Don't forget to take into account that you may have to pay federal income tax on a portion of your Social Security benefits.



# Social Security Benefits and Your Full Retirement Age

First, be aware of when you will be eligible for full benefits. Full retirement age depends on your year of birth.

| Year of Birth | Full Retirement Age |
|---|---|
| 1943-1954 | 66 |
| 1955 | 66 + 2 months |
| 1956 | 66 + 4 months |
| 1957 | 66 + 6 months |
| 1958 | 66 + 8 months |
| 1959 | 66 + 10 months |
| 1960 or later | 67 |

Source: Social Security Administration

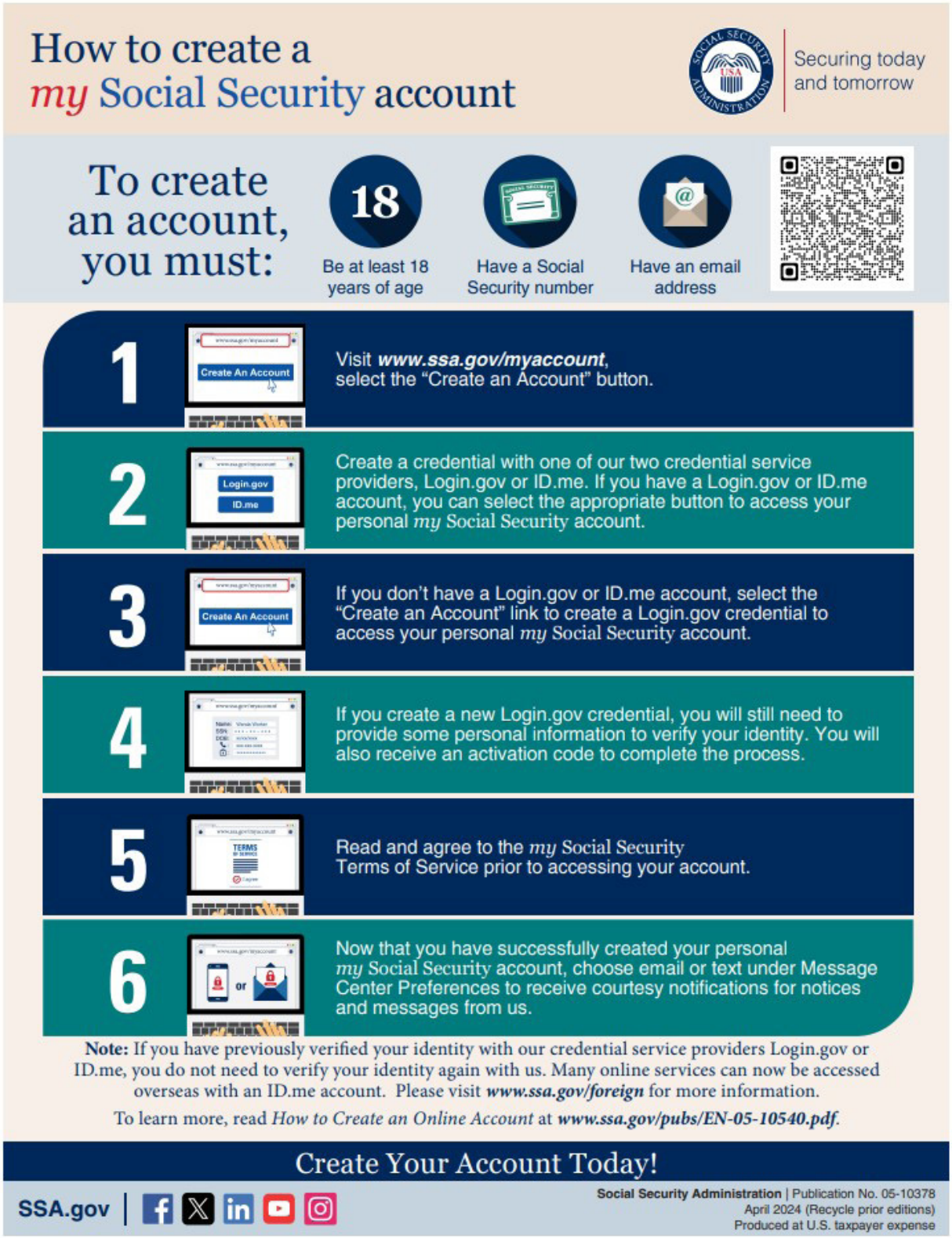
## What is the average Social Security benefit for a retired worker?

**$2,071 per month for 2026[1]**

[1]https://www.ssa.gov/faqs/en/questions/KA-01903.html

# Action Steps:

Step 1: Follow the Social Security Administration's guide below to create a my Social Security account



Step 2: From your my Social Security account, download a copy of "Your Social Security Statement" to review your benefit estimates and pay close attention to your earnings history on page 2 to ensure it is accurate. Your Social Security benefits are based on this record of your earnings. If you find an error, view your full earnings record under the "Eligibility and Earnings" section and call 1-800-772-1213 to report any errors.

Step 3: Generally, people should apply for retirement benefits no more than four months before you want your payments to begin. A person who meets all requirements of entitlement can receive reduced benefits beginning with the first full month that he or she is age 62. You can apply online at www.ssa.gov/apply or at any convenient Social Security office. When you are ready to apply, you should have the following items available:

## Basic information about yourself

- Social Security number
- Where you were born (city, state, country)

**Your earnings history**

- Verify your record of earnings (see step 2 above)

**Recent work**

- Names of employers for the past two years
- Dates of employment

**Current and past marriages**

- Your spouse/former spouse's Social Security number and birthday
- Date you got married/divorced
- Where you got married (city, state, country)

**Direct deposit for benefit payments**

- Routing and account number for your bank account

**Pro tip:** You can submit form W-4V (Voluntary Withholding Request) to request to pay taxes on your Social Security benefits throughout the year instead of paying a large bill at tax time. You can get the form from the SSA.gov website here:

**https://www.ssa.gov/manage-benefits/request-withhold-taxes**

## ❑ Consider your life expectancy

Great strides in health care and prevention have increased how long we're living. According to the Social Security Administration (SSA), the life expectancy for a 65-year-old male in the U.S. is approximately 18 more years, meaning they can expect to live until about age 83. For a 65-year-old female, the life expectancy is about 20.5 more years, leading to an expected age of about 85.5. Those averages mean that one in two of us may live longer than that.

## ❑ Plan for rising medical expenses

Spending on health care represents one of the largest expenses for many people in retirement. Fidelity's Retirement Health Care Cost Estimate reveals that, an individual aged 65 retiring in 2023, can now expect to spend an average of $157,500 on health care and medical expenses throughout retirement. This has nearly doubled from the $80,000 for a single retiree estimate in 2002. The 2023 estimate assumes enrollment in Medicare health coverage, but does not include the added expenses of nursing home or long-term care. As you plan, assume that health care costs will absorb an increasing amount of your income.

## ❑ Verify your health care coverage

Be sure to confirm what will happen to your employer-provided health care plan when you retire. When you retire, your employer-provided health care plan may be affected in several ways. Here are four of the most common options for health care upon retirement:

**1. Continuation of Coverage**

- **Employer Retiree Health Plan:** Some employers offer retiree health plans that allow you to continue your coverage with similar benefits.
- **COBRA Coverage:** You may be eligible for COBRA, which lets you continue your employer's health plan for up to 18 months after retirement. However, if you do continue the company plan under COBRA, you are on the hook for the entire premium (including what your employer paid when you were working). Moreover, the insurance company can tack on an extra 2% to cover administrative fees.

**2. Employer Health Benefits Termination**

- **End of Coverage:** Your employer-provided health care may end when you retire. You will need to find alternative health insurance.
- **Health Insurance Marketplace:** You can purchase a plan through the Health Insurance Marketplace, where you might qualify for subsidies based on your income.

**3. Transition to Medicare**

- **Medicare Eligibility:** At age 65, you become eligible for Medicare. You can enroll in Medicare Part A (hospital insurance) and Part B (medical insurance).
- **Medicare Supplement Plans (Medigap):** You may choose a Medigap policy to cover expenses not covered by Medicare. Here's a resource to help you compare Medigap plan benefits: https://www.medicare.gov/health-drug-plans/medigap/basics/compare-plan-benefits
- **Employer Medicare Advantage Plan:** Some employers offer Medicare Advantage plans as part of their retiree benefits.

**4. Spousal Coverage**

- **Spouse's Employer Plan:** If your spouse is still working and has an employer health plan, you might be able to get coverage through their plan.

## ❑ Plan for Long Term Care expenses

Long-term care, either in a medical facility or at home, can quickly deplete your savings. Also, medical costs will likely continue to rise, often at a rate higher than general inflation.

Many people think Medicare will cover long-term care, like staying in a nursing home, but it doesn't cover much of it. Here's what you need to know:

**What Medicare Does Not Cover**

Medicare does not cover long-term nursing care for people who need to stay in nursing homes because they are disabled or can't take care of themselves. It also doesn't cover assisted living or adult day programs. Medicare doesn't pay for daily custodial care, which includes help with eating, bathing, and dressing.

**What Medicare Does Cover**

**Skilled Nursing Care:** If you need skilled nursing care after a three-day hospital stay, Medicare will cover the full cost for the first 20 days. After that, you'll pay $217 per day (in 2026). Medicare stops paying after 100 days.

**Home Health Care:** If you're homebound due to an illness or injury and need short-term skilled care, Medicare will pay for nurses and therapists to visit you at home. This is usually

up to 28 hours per week and isn't round-the-clock care. Your doctor can recommend more, if needed.

**Hospice Care:** Medicare covers hospice care which helps make you comfortable during the last stage of life with a terminal illness. You're eligible if you are not seeking treatment for your illness and your doctor certifies you have six months or less to live. You can receive care for longer if your doctor continues to certify your terminal illness.

## ❑ Plan for taxes in retirement

Taxes and healthcare costs will likely be your two biggest expenses in retirement. Here's a list of important tax considerations for retirees:

1. **Understanding Taxable Income:**
- **Social Security Benefits:** A portion of Social Security benefits may be taxable depending on your overall income.
- **Pension Income:** Pension payments are usually taxable.
- **Retirement Account Withdrawals:** Distributions from traditional IRAs, 401(k)s, and other tax-deferred retirement accounts are generally taxable. You likely received a tax deduction when you put money into your retirement account and the IRS has its hand out now waiting to tax not only what you put into the account, but also its growth. These distributions are taxable at ordinary income tax rates just like a paycheck!

2. **Required Minimum Distributions (RMDs):**
- Retirees must take RMDs from most retirement accounts (excluding Roth IRAs) whether or not you actually need the funds. Failure to do so can result in substantial penalties.
- RMDs start at 73, if you were born January 1, 1951 through and including December 31, 1959
- RMDs start at 75, if you were born January 1, 1960 or later

3. **Tax Brackets:**
- Understand tax brackets and how your income in retirement places you in a particular bracket. This can help with tax planning and minimizing taxes over your lifetime. Many people think they will be in a lower tax bracket in retirement, but with pension income, social security income and RMDs, it's not always the case.

4. **Medicare and Taxes:**
- Higher income can increase Medicare premium surcharges called IRMAA. Understanding how income affects Medicare costs is crucial.

5. **Capital Gains and Dividends:**
- Long-term capital gains and qualified dividends are taxed at lower rates. Knowing the difference between short-term and long-term capital gains is beneficial.

6. **Tax Credits and Deductions:**
- **Standard Deduction:** The standard deduction is higher for individuals over 65.
- **Medical Expenses:** These can be deducted if they exceed a certain percentage of your adjusted gross income.
- **Property Taxes:** Some states offer property tax exemptions or reductions for seniors.

7. **State Taxes:**
- Some states tax retirement income, while others do not. Understanding your state's tax laws is essential.

8. **Tax-Efficient Withdrawals:**
- The order in which you withdraw funds from various retirement accounts can impact your overall tax liability. Having a plan for how you take money out of your retirement and investment accounts is even more important than when you put the money into these accounts.

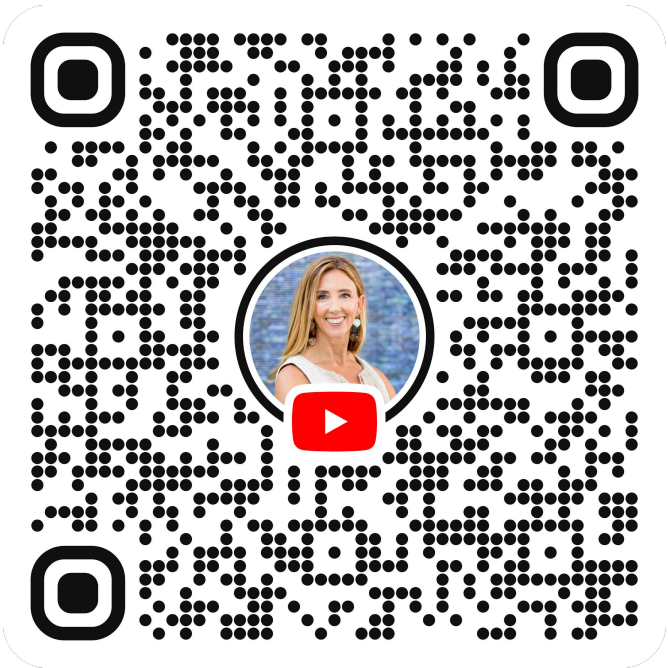
9. **Inheritance and Estate Taxes:**
- Be aware of federal and state estate taxes, as well as the rules for inherited IRAs and other retirement accounts.

- In addition to the federal estate tax, with a top rate of 40 percent, some states levy an additional estate tax or inheritance tax. Twelve states and the District of Columbia impose estate taxes and six states impose inheritance taxes. Maryland is the only state to impose both an estate tax and an inheritance tax.

10. **Charitable Contributions:**
- Qualified Charitable Distributions (QCDs) from IRAs can satisfy RMDs and reduce taxable income.

11. **Roth Conversions:**
- Consider Roth conversions to reduce future RMDs and create a tax-free asset for heirs. By converting funds to a Roth IRA, you pay taxes now at a known rate, effectively removing the IRS from the asset's future growth and inheritance. This strategy can help manage your tax liability and benefit your heirs with income tax-free distributions.

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Contact me at www.meritagewm.com to discover how I can simplify these steps so you can enjoy the retirement you have worked so hard for with a trusted, knowledgeable partner on your side.

I have been working with retirees since 1999 and am a CERTIFIED FINANCIAL PLANNER™ professional. I am a member of the National Association of Personal Financial Advisors (NAPFA), the Fee-Only Network and the XY Planning Network.

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