THE COMPLETE CARDINAL GUIDE
TO PLANNING FOR AND LIVING IN RETIREMENT

The financial complexities we face in retirement can be daunting. The landscape of Social Security, Medicare, insurance, benefits, investments, and planning for long-term care presents many choices, challenges, and opportunities. The Complete Cardinal Guide gives you the tools you need to understand how to make informed decisions that are right for you.

The purpose of this book is to guide you through the major retirement options that retirees face. It explains simple and effective strategies you can put in place now, with the help of professionals, to make your retirement financially successful.

Author and founder of Cardinal Retirement Planning Hans "John" Scheil, a Certified Financial Planner™ (CFP®) and Chartered Advisor for Senior Living (CASL®), calls upon his 40 years of experience in the business to answer the following questions in depth, and he illustrates each with real-life stories:

- At what age should I start receiving my Social Security check?
- What's the best way to supplement my Medicare coverage?
- Can I receive long-term care and stay at home? How do I afford it?
- How should I handle my IRA and/or 401k accounts?
- What's a smart investment strategy for financing my retirement years?
- How do my income taxes change after I retire?
- What if I live longer than my retirement savings last?
- What's the best way to transfer my life insurance and other assets to my children and grandchildren?
- How do I ensure my survivors are OK after I die?
- How should I approach choosing financial and legal professionals to help me plan my retirement?

Hans "John" Scheil is a Chartered Financial Consultant (ChFC®), Chartered Life Underwriter (CLU®), Certified Financial Planner™ (CFP®), and Chartered Advisor for Senior Living (CASL®) with 40 years of experience. He can be reached at 919-535-8261, or via email at Hans@PlanWithCardinal.com.
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Scheil

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Navigating Social Security,
Medicare and Supplemental Insurance,
Long Term Care, IRA,
Life Insurance,
Post-Retirement investment
and Income Taxes

Hans Scheil

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RETIREMENT

NAVIGATING SOCIAL SECURITY,
MEDICARE AND SUPPLEMENTAL INSURANCE,
LONG-TERM CARE, IRA, LIFE INSURANCE,
POST-RETIREMENT INVESTMENT AND INCOME TAXES

Cardinal, an adjective—"of the greatest importance; fundamental"
Synonyms: fundamental, basic, main, chief, primary, crucial, pivotal, prime, principal, paramount, preeminent, highest, key, essential.

- When do I start my Social Security check?
- How do I supplement Medicare?
- Should I purchase Long-Term Care Insurance?
- What should I do with my IRA or 401(k)?
- Am I investing and creating enough income in retirement?
- What about income taxes after age 65?
- How do I handle life insurance and transferring assets to children and grandchildren?
- How do I choose financial and legal professionals to help me?

The information presented in this book is not intended to be used as investment advice, legal advice, tax advice, or insurance recommendations. Consult a qualified professional, like a Certified Financial Planner™, for advice specific to your needs.

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CHAPTER 8 | INCOME TAXES

I am not a CPA, nor do I prepare income taxes in my financial planning practice. But I do consider myself an expert in planning how to reduce income taxes paid on retirement income. For all new clients, we review the income tax returns from the previous two years. Our affiliated CPA firm reviews the returns and advises the client through us. I don't have any good client income tax stories, but even so I encourage you to read this brief chapter as a reminder, if nothing else. And you might learn something new. The text follows the sequence of topics as presented in the book and focuses on the relevant age 65+ income tax issues about Social Security, Medicare, long-term care, IRAs, investments, life insurance, and estate planning.

Taxes on Social Security Benefits

Some people have to pay federal income taxes on their Social Security benefits. This happens only if you have other substantial income from wages, self-employment, interest, dividends, and other taxable sources that must be reported on your tax return, in addition to your benefits. "Combined income" is one-half of your Social Security benefits plus your other income. If you file a federal tax return as an "individual" and your combined income is between $25,000 and $34,000, you will pay income tax on 50% of your Social Security check. If your income is more than $34,000 you will pay taxes on up to 85% of your Social Security check, depending on your income level. If you file a joint return, the same formula holds: 50% if your income is between $32,000 and $44,000, up to 85% if your income is over $44,000. If you are married

SUMMARY: STRATEGIZING INCOME TAXES

- **Social Security income is partially taxed.**
- **$$$$$ Medicare applies a surcharge to high-income beneficiaries.**
- **Long-term care insurance has tax benefits.**
- **IRAs let you postpone income taxes, but you don't avoid income taxes altogether.**
- **Investment income is taxed depending on how it is held.**
- **There are income taxes even in death.**
- **Long-term care implications of income taxes: Long-term care costs can be a deductible medical expense that offsets other income.**
- **Get professional help with your income tax preparation.**
- **$ The AARP will help you complete your income taxes for free if you are in need.**

and file a separate return, you will pay income taxes on your Social Security benefits, at the same rates. All the talk you hear about "means testing" Social Security is already happening, because more affluent people are taxed on up to 85% of their benefits.

Taxes on Medicare Benefits

$$$$$ Medicare deducts income tax money from beneficiaries with higher incomes through surcharging Part B premiums and Part D premiums. Ed Slott refers to these charges as "stealth taxes," and I have to agree. For an individual, the income threshold is $85,000; for a married couple the threshold is $170,000. If you earn less than that, your Part B premium is $104.90 (in 2015) monthly and Part D costs whatever the insurance company charges you. If you exceed those income thresholds, your Part B premium can be as much as $335.70 monthly per person, and Part D can cost as much as $70.80 plus what the insurance company charges.

For 2016, Medicare uses your 2012 income tax return, so there is a lag effect. If a client has suffered a large drop in income, we help him or her appeal using the older return as a basis. The story about Rebecca in chapter 5 (see page 42) points out how difficult an appeal can be. Most of our clients have Part B and Part D charges deducted from their Social Security checks, which means that many of them with higher incomes are unaware that they are paying this stealth tax until we point it out to them. So, like Social Security, Medicare is in fact also "means tested."

Taxes on Long-Term Care Insurance

Long-term care insurance also has some income tax implications. If you itemize deductions for 2015, you can write off a certain amount of your annual premium:

Age 40 or less:	$380
Age 41–50:	$710
Age 51–60:	$1,430
Age 61–70:	$3,800
Age 71 and older:	$4,750

—Internal Revenue Code §213(d) (10)

Make sure you consult your tax advisor before taking any of these deductions.

Benefits you receive from a qualified long-term care policy are received tax free up to $330 per day in 2015. This is approximately $10,000 per month.

Taxes on IRAs

As noted in chapter 5, IRAs are an income tax postponement vehicle. Please refer to the discussion there for details. In a nutshell: Money you withdraw from your IRA (unless it is a Roth IRA) will incur income taxes and can push you into a higher tax bracket. At age 70½, the IRS requires you to start taking money out of your IRA even if you don't want or need it. If you are over 70½ and don't need to live on your minimum distribution from your IRA, consider donating your distribution through a Qualified Charitable Distribution (QCD). Talk to your tax advisor about this idea—it is a very tax-efficient way to make charitable contributions.

Taxes on Other Investments

Investment income incurs income tax in the year it is earned and received. Capital gains and dividends are currently taxed at significantly lower rates than ordinary income. Income accrued inside of annuities and life insurance policies is not taxed until it is withdrawn. If you do not itemize deductions, you are entitled to a higher standard deduction if you are age 65 or older at the end of the year. Capital assets like real estate, a business, and/or stocks and bonds receive a step up in basis at the death of the owner. Your estate must file an income tax return for the year you die.

Tax Implications of Estate Planning

Estate planning and estate settlement have many income tax implications. The first thing to know is that **life insurance proceeds are received income tax free by most beneficiaries.** Check out the 1926 income tax form in appendix H, which exempts life insurance proceeds from income tax. This is a real tax return provided to me by one of my associates at Cardinal. His great-grandfather was a bookkeeper who lived at the local YMCA. His income in 1925 was $3,147.50, and he paid income taxes amounting to $18.50. As you can see on the back page of the return, life insurance benefits were exempt from income tax; 90 years later this exemption is still intact.

Second, it's important to remember that income taxes have to be paid for the year in which a person dies. Depending on the situation, that could be complicated and/or expensive.

Third, the inherent gains in property values are stepped up in basis when a property owner dies. If a client has a farm he bought for $200,000 many years ago and he sold it for $1,000,000 today, he would owe capital gains taxes on $800,000. If the property is held until death and passed on, his heirs receive it at a basis of $1,000,000. If the heirs sold it soon after, they would probably owe no capital gains tax.

This brief overview should suggest to you that there are simple ways to minimize the tax liabilities of your estate—if you know the mechanics of how various assets work, and the details of tax law. There can be great value to you in consulting with an expert. Cardinal Retirement Planning, like other experienced advisory firms, can provide you with these important services.

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