



6 Common Medicare Myths That Should Be Dispelled

Medicare is one of the most critical elements of health care for senior citizens in this country. It's also one of the most misunderstood. A number of myths about Medicare have proliferated, costing countless enrollees both time and money. Here are six myths you might be swayed by and the reality about them:

Myth #1: You must be retired to apply for Medicare.

Reality: You can sign up for Medicare at age 65 regardless of whether you're still working or are already retired. And even though many people lump together Medicare and Social Security, the full retirement age (FRA) for receiving Social Security retiree benefits—currently 66 for most people but gradually rising to 67—has nothing to do with Medicare eligibility. But you can be penalized for applying late for Medicare, so sign up as soon as you reach age 65.

Myth #2: You won't qualify for any Medicare assistance if you haven't worked long enough.

Reality: It's true that you must have at least 40 work credits to qualify for Medicare Part A (hospital insurance). But there's no such requirement for Part B (physician services, outpatient care, and medical equipment and supplies) or Part D (prescription drugs). You're eligible for these programs if you are at least age 65, are a U.S. citizen or have been a

legal resident in the U.S. for the past five years, and you submit a valid application. In addition, even if you haven't worked enough to earn 40 credits, you still may qualify for Part A based on your spouse's work record or you could choose to pay the premiums to get Part A coverage.

Myth #3: Medicare Part B costs the same no matter when you apply.

Reality: If you fail to sign up when you reach age 65, you will pay more for the Part B program when you do apply, and your coverage may be delayed. The extra cost comes in the form of



surcharges on your premiums for all future years. If you're continuing non-Medicare health insurance past age 65 while still employed, or if you are covered under your spouse's health plan, you can avoid penalties for late Part B enrollment. Otherwise, you're required to enroll during an initial seven-month period that includes the three months before you turn 65, the month you reach that age, and the three months after that.

Myth #4: You don't need Medicare Part B because you have COBRA or retiree coverage.

Reality: Although Part B is optional, don't be fooled into thinking that it's useless when you have other coverage. In some cases, coverage under your non-Medicare plan will leave you responsible for high out-of-

Tie The Knot For Retirement With A Spousal IRA

In most families, one spouse does better financially than the other. For example, if you stayed home to look after the children while your spouse worked full-time, you may not have accumulated as much money for retirement as your spouse.

But having a low income doesn't necessarily mean you can't make significant contributions to a retirement account. You and your spouse might consider a spousal IRA. If at least one of you has earned income, you both can contribute to a traditional IRA for your spouse as well, within certain limits, until the working spouse reaches age 70½.

The annual limit for IRA contributions is \$5,500 or \$6,500 if you're age 50 or older. That ceiling is effectively doubled for a spousal IRA—for example, if both spouses are 55, they can contribute a total of \$13,000.

To qualify for a spousal IRA, you must:

- Be married;
- File a joint income tax return for the year of the contribution; and
- Together have earned income of at least as much as your total contribution to all IRAs.

Your contributions might be tax-deductible, but even if your income is too high to qualify for that tax benefit, you still can benefit from tax-deferred growth within the IRA.

Finally, you might opt for a Roth IRA—your contributions won't be deductible but distributions during retirement normally are tax free. And you don't have to take money from the account during your lifetime. (Eligibility is phased out for high-income taxpayers.)

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5 Key Documents In An Estate Plan

To do a job right, you need the proper tools. And while every estate plan is unique, these five documents are often integral elements in all plans:

1. Financial power of attorney.

This document authorizes an “attorney-in-fact” to act on your behalf in financial matters. The most common power of attorney, a “durable” one, remains in effect if you’re incapacitated. Another variation, which is known as a “springing” power of attorney, transfers control to the designated person only if you’re incapacitated.

The attorney-in-fact may have broad powers, able to buy or sell personal property, for example, or the role may be limited to specified tasks. This power of attorney expires when you die.

2. Health-care power of attorney.

This also authorizes another person to make decisions on your behalf if you’re unable to do so—in this case, involving medical care, carrying out your end-of-life wishes, and related matters. Here, the attorney-in-fact is typically your spouse, a child, or a sibling. Like a financial power of attorney, it may be broad or limited and expires at your death.

3. Living will. While a health-care power of attorney may authorize someone to help with end-of-life decisions, establishing what will happen when you’re dying is the sole purpose of a living will. Depending on the laws of your state, you may be able to use a living will to say whether or not you want life-sustaining treatment if you are terminally ill or grievously injured.



Also depending on state law, a health-care power of attorney and a living will may be able to be combined into one document. In other states, a living will may supplement a health-care power of attorney, and both documents can be coordinated with other medical directives or proxies.

4. Trusts. There are many reasons for creating and funding trusts. A trust could be used to prevent family squabbles or impose restraints on spendthrift family members. One variation, a living trust, often supplements a will because assets in the trust don’t have to go through probate court proceedings.

Though there are myriad variations, all trusts are either revocable or irrevocable. With a revocable trust, you retain control over the assets. Yet while that’s not the case with an irrevocable trust, this type of trust can protect assets from creditors and remove them from your taxable estate.

5. Will. Last but not least is your will, which establishes how your assets will be distributed after you die and who will have custody of any minor children. You also could use it for other purposes

such as making charitable donations and creating trusts.

If you die without a will—“intestate,” in legal parlance—the laws of your state will determine who gets your assets and assumes guardianship of your children. As the centerpiece of your estate plan, this is definitely one tool you can’t be without. ●

What’s The Truth About Probate?

Have you heard horror stories from families that had to suffer through costly, protracted probate proceedings after a relative dies? The possibility is very real, especially if a will is contested. Yet while it might turn into a nightmare, sometimes probate works like a dream. Before you take drastic steps to avoid probate, it’s important to know what it’s likely to involve.

The first thing to know is that laws concerning probate vary from state to state. In some states, the process may be quick, while in others it’s likely to take a while.

Probate is the court-supervised

process of distributing the assets of someone who has died, according to that person’s will. Even when there’s no will, however, assets usually still have to go through probate. Among the exceptions are life insurance proceeds, which normally can go to designated beneficiaries without passing through probate.

If there’s a will and an executor, that person usually handles the probate process. When there’s no will, the probate court will assign someone to assume those responsibilities. The person representing the person who has died will tally up and list the assets; pay outstanding debts, bills,

taxes, and fees; and distribute the assets to beneficiaries according to prevailing laws. It may be helpful to hire an attorney to assist a court-appointed representative.

Probate proceedings are open to the general public. And even if an estate is relatively simple, probate can eat up time and money, perhaps delaying the distribution of assets that family members are counting on. And the last thing grieving family members are likely to want is to be caught up in interminable meetings and legal wrangling.

One way to avoid the hassles of probate is to establish a living trust and

20 Questions On Required Minimum Distributions

Do you remember playing “20 Questions”? Here are the answers to 20 questions about required minimum distributions (RMDs). Most of this information comes from the frequently asked questions section of the IRS website.

Q1. What is an RMD?

A. This is the amount you’re required to withdraw from your 401(k) plans, other employer-sponsored retirement plans, and IRAs.

Q2. Which plans do the RMD rules apply to?

A. The rules cover all employer-sponsored retirement plans, including pension and profit-sharing plans, 401(k)s, 403(b) plans for nonprofits, and 457(b) plans for government entities, plus traditional IRAs and IRA-based plans such as SEPs, SARSEPs, and SIMPLE-IRAs.

Q3. When do I have to begin taking RMDs?

A. The required beginning date (RBD) is April 1 of the year after the year in which you turn age 70½. For example, if your 70th birthday was January 1, 2016, you must begin taking RMDs no later than April 1, 2017.

Q4. When do I have to take RMDs in future years?

A. The deadline is December 31 of the year for which the RMD applies. Thus, if you turn 70½ in 2016, you must take the RMD for the 2017 tax year by December 31, 2017.

Q5. How do you figure out the RMD amount?

A. Divide the balances in your plans and IRAs on December 31 of the prior year by the factor in the appropriate IRS life expectancy table.

Q6. Can I withdraw more than the required amount?

A. You can withdraw as much as you like; RMDs are the least you are allowed to take.

Q7. If I take more than the RMD this year can I withdraw less in a future year?

A. No. Each RMD is calculated based on the account balance and life expectancy factor for that particular year.

Q8. Do I have to take RMDs from all of my retirement plans?

A. Although you must calculate the RMD separately for each IRA you own, you can withdraw the total amount from just one IRA or any combination of IRAs that you choose. However, for employer-sponsored plans other than a 403(b), the RMD must be taken separately from each plan account.

Q9. What happens if I fail to take an RMD?

A. The IRS imposes a penalty equal to 50% of the amount that should have been withdrawn (reduced by any amount actually withdrawn).

Q10. How are RMDs taxed?

A. Generally, the entire amount of an RMD is taxable at ordinary income rates. The exception is for amounts attributable to non-deductible contributions to an IRA.

Q11. Are there any exceptions to the RMD penalty?

A. The penalty may be waived if you

can show that the shortfall was due to reasonable error and you now have withdrawn the required amount.

Q12. Is an RMD subject to the net investment income (NII) surtax?

A. Distributions from retirement plans don’t count as NII. However, RMDs will increase your modified adjusted gross income (MAGI), and a higher MAGI could make you subject to the tax.

Q13. Can I still contribute to my plans if I’m taking RMDs?

A. Yes. If you’re still working and participating in a plan, you may qualify to continue your contributions.

Q14. Do I have to take an RMD if I’m still working?

A. Generally, you have to take RMDs from all employer-sponsored plans and IRAs. However, you don’t have to withdraw an RMD from non-IRAs if you still work full-time and don’t own 5% or more of the business.

Q15. Can an RMD be rolled into an IRA or other plan?

A. Absolutely not. Rollovers are prohibited.

Q16. Can an RMD be donated to charity?

A. Yes. Under a recent tax law extension, if you’re 70½ or older you can transfer an RMD of up to \$100,000 directly from an IRA to a charity without paying tax on the distribution.

Q17. What happens if I die before my required beginning date?

A. No distribution is required for the year of death. For subsequent years, RMDs must be taken from inherited accounts. A spousal beneficiary has greater flexibility than non-spouses, including being able to treat the account as his or her own.

Q18. What happens if I die after my RMD?

A. The beneficiaries of the accounts must continue to take RMDs under complex rules. Again, spousal beneficiaries have greater flexibility than other heirs.

Q19. Do the RMD rules apply to Roth IRAs?

A. No. You don’t have to take RMDs from a Roth IRA during your lifetime. After your death, however, your heirs must take lifetime RMDs from the Roth.

Q20. When should I arrange my RMD?

A. The sooner, the better. Don’t wait to get caught in a year-end crush. We can help with the particulars. ●

transfer assets into it. The contents of a living trust don’t have to go through probate, and the amounts and recipients of bequests remain private.

Yet in some states, probate can work to a family’s benefit, especially

if an estate is relatively small or someone has died without a will. State law can lay out a blueprint for ensuring that the right people receive the property. In addition, it may be better for the family to have the estate bear

the cost of the probate process. The laws in some states include provisions for a relatively fast, inexpensive resolution to probate that may be preferable to using a living trust or other complex arrangements.

Your attorney can explain the laws in your state and help you decide how to proceed. ●



Higher-Paying Job May End Up Costing You

Are you thinking about taking a higher-paying job in another state? Better think it through very carefully. That new job actually could end up providing you with less spendable income than you get from your current job.

How's that possible? A number of factors may affect the cost of living in any area, and some job seekers fail to consider overall living expenses in the area where the higher-paying job is located.

In fact, according to Glassdoor, an online job-listing site, almost 70 percent of job hunters say salary is their top priority when looking at a new job offer. Location and commute come in as the second choice at 59 percent. Benefits and perks come in third at 57 percent.

"Often times when people move, they have no idea what the overall cost is," says Kristen Robinson, senior vice president of the Women and Young Investors unit of Fidelity Investments. "They're just looking at the salary increase and thinking, 'Wow, I'm making \$10,000 more a year.'"

Changing jobs can mean having to pay more for some perks or losing

some benefits altogether. Health care costs may go up and 401(k) matches may go down. Or someone in the job seeker's family may have a chronic health condition that could lead to much higher expenses if coverage in the new position isn't as good as at the previous company.

Other factors also enter the picture: property values (whether you own or rent) may be higher in the new area, which could mean increased property taxes and insurance rates or higher rental costs. These increased expenses could add significantly to the cost of living in the new area. Groceries may cost more, as well as gasoline and other everyday living expenses.

All of these factors could cut a \$10,000 annual salary increase considerably – if not completely – or possibly even cause the increase to fall into negative territory.

Some benefits, including health care costs and 401(k) match, are not negotiable. But Scott Dobroski, a

spokesman for Glassdoor, says people considering a job change based on salary should take a hard look at the numbers and decide what perks and benefits are most important. For example, a flexible work schedule may rank high on a job seeker's list of preferences.

Dobroski adds that job seekers also should crunch the numbers to get a better understanding of the overall financial picture. One positive change could be that the new job is located in a state with no state income tax. Seven U.S. states—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming—currently don't have an income tax. And residents of New Hampshire and Tennessee are also spared from handing over an extra chunk of their paycheck on April 15, though they do pay tax on dividends and income from investments.

If you're considering accepting a higher-paying job in another state, feel free to contact us. We may be able to help in your decision-making process. ●



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pocket costs. Under COBRA, you're generally covered for a period of 18 months after retirement, although you usually have to pay the premiums (plus a 2% administrative fee). The deadline for enrolling in Part B following expiration of COBRA coverage is eight months after you stop working. Again, if you fail to do so, you'll be hit with surcharges on your Part B coverage.

Myth #5: You don't need Part D coverage for prescription drug costs because you don't take any medicines regularly.

Reality: This would be true only if you manage to go through the rest of your life without needing any prescriptions drugs. But that's

unlikely, and it makes sense to safeguard yourself from exorbitant costs that easily could reach hundreds or thousands of dollars a month if you fall ill. Like other forms of insurance, Part D protects you against future events that may happen. If you wait to apply for Part D until it's an emergency, you could be assessed permanent penalties for applying late. Part D also can work in conjunction with drug coverage under other plans.

Myth #6: You can sign up for Medicare only during the annual "open enrollment" period.

Reality: This is a principal

misconception about Medicare. The annual open enrollment period—from October 15 to December 7—is an

opportunity for those already covered by Medicare to change their coverage. It doesn't apply to newcomers, whose time to enroll is based on their birthdays or the end of coverage through their employers or their spouses' employers. If you miss out, you're subject to permanent penalties and delayed coverage.

Don't be guided by what you think you know about Medicare. Get all the facts you need to make informed decisions. ●

