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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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'Facts are stubborn, but statistics are more pliable' **Mark Twain**

Zacks Investment Management put out an excellent summary of what we know so far about tax reform. By the time the House and Senate finish with a bill that can be signed we are likely to see many changes, but so far, this is what we expect:

Inside the House Tax Proposal – It is no secret that it's going to be a long, tough road for tax reform. Here are some of the key highlights of the House plan:

- No change to 401(k) contribution caps
- Repeal the Alternative Minimum Tax (AMT)
- Corporate tax rate at 20% (aims to be a permanent cut)
- Top individual tax rate 39.6% threshold at $1 million
- Cut the current 7 individual tax brackets down to 4:
  - 12% for $45,000 ($90,000 married) and lower
  - 25% for $45,001 - $200,000 ($90,000 - $260,000 married)
  - 35% for $200,000 - $500,000 ($260,000 - $1,000,000 married)
  - 39.6% for $500,000+ ($1,000,000+)
- Estate tax doubles and gets repealed starting in 2024
- Property tax cap of $10,000
- Pass-throughs

  Passive owners of pass-through get 25% rate
  - Active owners have different standard
  - Presumes 70% of pass-through income is attributable to labor and would be taxable at higher individual income tax rates
  - For professional service firms default rate would be 100% of labor – no benefit from 25% rate
- Repeals itemized deduction for medical expenses
- Repeals credit for adoption
- Child tax credit at $1600 and creates $300 credit for each parent - $300 credits expire after 2022
- Repeals deduction for student loan interest
- No expansion of charitable giving limits
- For corporations, 10% tax on US companies' high profit foreign subsidiaries calculated on global basis
- Foreign companies operating in US face up to 20% tax on payments made abroad from US operations to prevent deduction load-up
- Tax rate could be lowered by companies agreeing to increase US operations
- Interest deductions capped at 30% of EBITDA – exemption for real estate firms and small businesses

Looking at the proposed changes, the endgame of lower taxes for individuals and corporations is a desirable outcome. But the suggested changes or outright elimination of very popular personal deductions that are needed to help pay for the cuts may sit wrong with the public.

Best Indicator for Market Valuations.

After many years of study and countless thousands of articles & books that I've read about the stock market & valuations, I finally think I found the 'holy grail'…courtesy of who else – Warren Buffet.

What Buffet measures is the total market capitalization of all U.S. stocks relative to the country's gross domestic product. He feels that when it's in the 70% to 80% range, all systems are go and it's full steam ahead.

Conversely, when it's at 100, it's time to tap the brakes. When it's well above that number…well… Currently the number is 139%, which is very close to the all-time high of 145% set in 2000 (see chart).

Daily Reckoning blogger, Jody Chudley, has an interesting theory on why valuations are as high as they are today. Chudley feels that there is a massive flow of money going into Index funds as more and more investors are opting for passive investing.

Passive vehicles buy the exact same stocks with no thought whatsoever to their valuations. An Index fund is just as happy to buy stocks trading at 100 times earnings as they are to buy at 6 times earnings. To them it makes no difference.

All of this mindless Index money ends up chasing all the same stocks that make up the underlying indices. With hundreds of billions of dollars chasing the same stock you end up with ridiculous valuations…which may be why the Buffet measure is where it is.

Medicare Answers you Should Know

1.When should I sign up for Medicare?

You become eligible for Medicare beginning at age 65. If you are receiving Social Security, you will automatically be enrolled in Medicare. Part A will be free. Part B costs $134 per month in 2017, plus an additional amount if your income is over the threshold ($85,000 for single filers, $170,000 for joint filers). If you do not want Part B (say you have employer insurance that pays primary to Medicare), you can decline it.

If you are not receiving Social Security when you turn 65, you have a choice. Whether you should sign up for Medicare at 65 depends on the insurance you have at that time. Some insurance plans stop when Medicare eligibility begins—that is, when you turn 65. Other plans are designed to work with Medicare—and you must enroll in Medicare at 65 in order for the two plans to work together. Still other plans pay primary to Medicare and you do not need to enroll in Medicare because the plan will cover your bills. But most insurance plans don't cover 100% of the bills.

Enrolling in Medicare can give you extra coverage even if you have other insurance that pays primary to Medicare. You would need to decide if it's worth it to pay the Part B premium (including the income-related monthly adjustment amount if applicable) in order to have the extra coverage.

2. Can I keep my same doctor?

Probably. Most doctors do accept Medicare. But sometime before your 65th birthday you should ask your doctor if he or she accepts Medicare. If not, you will probably need to find another doctor because at some point—when your employer insurance ends if not before—you will be going onto Medicare. When planning for Medicare in the months and years before turning 65, it's a good idea to develop a relationship with a doctor who accepts Medicare. The reason is that some doctors who accept Medicare don't accept new Medicare patients. But they will continue to treat existing patients who go onto Medicare.

One of the decisions you will make before going onto Medicare is whether to have Original Medicare or a Medicare Advantage plan. Under Original Medicare, you can go to any doctor in any location who accepts Medicare (good for people who travel or have more than one residence). Under Medicare Advantage you will be signing on with a private insurance company that provides benefits and services under Medicare Parts A and B. (You still have to enroll in Parts A and B and pay the Part B premiums.)

3.What if I'm still working when I turn 65?

If you are still working when you turn 65, you may be able to keep your employer insurance. But you still may be required to enroll in Medicare. If your employer plan covers 20 or more employees, that plan will pay primary to Medicare and you are not required to enroll in Medicare. You may continue the same as before, keeping your employer plan and delaying Medicare enrollment. But talk to your benefits administrator. You may be advised to enroll in Medicare Part A. Part A is free and offers better hospital coverage than most employer plans.

However, if your employer plan is a high-deductible health plan (HDHP) paired with a health savings account (HSA), you may not enroll in any part of Medicare. That's just a rule.

If you are working and covered by an employer plan that covers fewer than 20 employees, you must enroll in Medicare. These smaller employer plans pay secondary to Medicare, and in order for Medicare to pay primary you must be enrolled. Sometimes employees of under-20 companies are not told that they need to enroll in Medicare at 65. And sometimes these employer plans don't notice when a person turns 65. What can happen in this case is that you incur a medical bill and the plan denies it because Medicare is the primary payer.

4. What about my spouse?

If you and your spouse are both covered under your employer plan when you turn 65, and if you go off the employer plan in order to have Medicare and outside supplemental insurance, your spouse may or may not be able to stay on the plan. Talk to your insurance company or benefits administrator and make sure your spouse is squared away before you go off the plan. If it is not possible for your spouse to stay on your employer plan after you go onto Medicare, your spouse can look to his or her own employer for insurance, or else purchase individual insurance through the ACA marketplace.

5. What if I sign up for Medicare and then get a job that offers health benefits?

If your new employer plan offers better benefits than Medicare, you can disenroll from Part B and re-enroll later, when you retire and go off the plan. Remember, though, that if you are receiving Social Security, you must be enrolled in Part A. This is the law. Since Part A is free, there is usually no downside to having Part

6. I retired at age 60 and went onto my former employer's retiree plan. Do I have to enroll in Medicare at 65?

Yes. Most retiree plans are designed to work with Medicare once a person turns 65, and you must be enrolled in Medicare in order for the plan to pay. You may be able to keep the retiree plan as supplemental insurance if it provides benefits Medicare doesn't cover (such as vision and dental) and covers some of the gaps left by Medicare (such as the 20% coinsurance for Part B services). Upon turning 65 you should re-evaluate your retiree plan. If it's a good plan and your former employer is subsidizing the premiums, you may wish to stay on it. But if you are paying the premiums yourself, you may be better off going into the open market for Medicare supplemental insurance, either a Medigap policy paired with a standalone Part D drug plan, or a Medicare Advantage plan.

7. I retired and went onto COBRA. Can I wait until the COBRA expires before enrolling in Medicare?

No. COBRA generally lasts for 18 months. if your employer plan is an HDHP/HSA, when you go off the COBRA you will be outside your Medicare special enrollment period, which ends the eighth month after you retire. This means you can’t enroll in Medicare until the next general enrollment period, which starts January 1 and ends March 31 of each year, with coverage starting the following July.

Can you have COBRA and Medicare at the same time? It depends on your timing. If you enrolled in Medicare first, you can go onto COBRA and keep it as supplemental insurance. But if you went on COBRA before enrolling in Medicare, the COBRA must stop when the Medicare starts.

8. How much does Medicare cost?

Some people think Medicare is a free government benefit. It’s not. Only Part A, which covers part of the cost of hospitalizations, is free if you or your spouse paid into Social Security for at least 10 years. Part B costs $134 per month in 2017—more if your income is over $85,000 (single) or $170,000 (joint). Those are the monthly premiums. There are also deductibles and coinsurance amounts. This is why most people get supplemental insurance.

You could get a comprehensive Medigap policy for around $200 a month, plus a drug plan for about $40. This would provide fairly comprehensive coverage that would cover all of your deductibles and the 20% coinsurance. It would not, however, cover dental, vision, or hearing care. And if you are on an expensive drug regimen, you may pay more for your prescriptions.

9. How much does Medicare cover?

If you download the latest Medicare and You book you will see all the items Medicare covers. Part A helps cover inpatient hospital costs, skilled nursing care for a limited time, hospice care, and home health care. Part B helps cover doctor visits and other medical services, plus a range of preventive services, such as flu shots, mammograms, colonoscopies, and more. Drug coverage is provided by private insurance companies in association with Medicare. If you choose Original Medicare, you can enroll in a standalone prescription drug plan. If you choose Medicare Advantage, you can enroll in a plan that includes drug benefits.

It’s also important to understand what Medicare does not cover: Dental, vision, hearing, cosmetic surgery, alternative care such as chiropractic, and care delivered outside the United States. When you go onto Medicare it will be important to plan for these events, either by taking out additional insurance, or by self-insuring—that is, setting aside your own savings to cover them.

10. Does Medicare cover long-term care?

No. Medicare covers up to 100 days of skilled nursing care only, and that’s following a hospitalization and based on doctor’s orders. Medicare does not cover custodial care at all. This is the type of care older people need when they have trouble bathing and dressing themselves. Medicare won’t pay for it.

Happy Holidays to you all!