MILESTONE
Financial Planning, LLC

www.MilestoneFinancialPlanning.com Summer 2016

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-

(Continued on page 4)

With Or Without The New Fiduciary Rule, We Have Your Back

When the Department of Labor (DOL) proposed its fiduciary rule for retirement accounts in 2015, the department wasn't prepared for the controversy the rule generated. After months of review, the DOL unveiled the final rule early in 2016. It is slated to take effect on April 10, 2017.

Although the final rule reflects the basic tenets of the proposed rule, it does include some modifications designed to appease its critics.

At its core, the rule requires financial advisors and their firms to uphold fiduciary standards when those advisors and firms are compensated for investment advice and recommendations relating to retirement accounts such as 40(k)s and IRAs. Essentially, advisors and firms must promise that they're putting the best interests of clients before their own.

This "best interest" stipulation must be reflected in a written contract that says the advice being offered is based on a client's particular needs.

Among other modifications, the final rule covers assets that previously were thought to be excluded, such as variable annuities, and repeals certain requirements for projections of advisor fees. It also streamlines the procedures for the contracts.

We always have put our clients' best interests first and will continue to do so. No regulation is needed to ensure our good faith.

Views On Retirement Communities

How do you feel about retirement communities? Such places, often reserved for those who are age 55, or older, have many supporters and detractors, and opinions may vary widely even from one spouse to another. In the end, this is a personal decision that you have to make for yourself or as a couple. Consider these key considerations:

Common Advantages

- There's generally plenty to do in a retirement community. Depending on the location, you may be able to use your newfound leisure time for golfing, tennis, swimming, gardening, theatre, clubs of all sorts, and numerous other activities.
- Security is another reason why many senior citizens are flocking to these developments. Many communities are gated and have a visible security presence. Plus, with so many neighbors around all the time—rather than being away at work—suspicious activities tend to be reported quickly.
- The homes usually are located close to a reputable medical facility, shopping, and other conveniences. Some even have retail stores.
- A retirement community may offer peace and quiet, with no teenagers revving up their car engines or having all-night parties.
- Homes are built with retirees in mind. They generally provide easy access for disabled individuals and the elderly.
- You can meet and socialize with people in your own age group.

Common Disadvantages

- You may have strong ties to your current community. Many people feel most comfortable staying in the home where they raised their kids and living close to long-standing friends and neighbors.

- Do you have adult children or grandchildren living with you? If that's the case, you may not want to uproot them. In addition, they may not be allowed to live full time in an age-restricted community.
- Even if you don't have youngsters living with you, you may enjoy being around younger people. The age mix in your neighborhood may suit you just fine.
- One frequent complaint of young retirees is that they don't want to live with "old" people. They see themselves as being young or at least acting as if they were. And some people view living in a retirement community as a stigma to be avoided at all costs.
- The association fees for maintaining the community grounds—often including swank clubhouses, golf courses, and other amenities—can be pricey. If you're not a golfer, or shun the swimming pool, the extra costs might not be worth it to you.

In any event, get all the information you need to make the best choice for your situation. Your advisers can help. ●

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

Six Hurdles To Overcome In Stretch IRA Planning

The traditional IRA is a proven vehicle for retirement saving. Contributions you make during your working days may be partially or wholly tax-deductible. These amounts are invested and can compound without being eroded by current taxes. Generally, you'll be making withdrawals, taxed as income, during your retirement, when you may be in a lower tax bracket than you were at the peak of your career.

But you may decide to supplement or replace traditional IRAs with Roth IRAs. For those, you can't deduct contributions, but future distributions are likely to be completely tax-free after five years. You can convert funds in a traditional IRA to a Roth by paying current income tax on the amount you convert.

One other big difference between these two kinds of retirement accounts is that with a traditional IRA, you eventually have to take money out—and pay taxes on your withdrawals. Required minimum distributions, or RMDs, must begin after you reach age 70½. In contrast, you can leave the money in a Roth IRA untouched during your lifetime and pass it along to your heirs.

But even with a traditional IRA, "stretch planning" can help you preserve more of your savings for future generations. This approach enables IRA benefits to be stretched out over the lives of the beneficiaries you designate long after you're gone.

Many complex rules apply to IRAs that are inherited. A beneficiary who is a spouse has more flexibility than someone who isn't. Generally, anyone other than a spouse must empty the IRA based on his or her life expectancy or within five years. To further complicate matters, recent budget proposals, if enacted, could curb IRA stretch planning. You may want to lock in your plans now to protect against future changes in the rules.

These six hurdles often stand in the way of maximizing the benefits of stretch planning:

1. Incorrect titling. Different IRA custodians may have different requirements for how inherited IRAs are titled. But correct titling should include the deceased owner's name as well as language indicating that the account is an inherited IRA. For example: "John Adams, deceased, IRA for the benefit of John Quincy Adams."

2. Failing to take RMDs. Just as you're required to take these distributions—based on the account balances in the prior year and life expectancy tables—from a traditional IRA once you reach age 70½, your beneficiaries must take RMDs from both traditional and Roth IRAs. The penalty for failing to do so is 50% of the amount that should have been withdrawn (in addition to the regular tax).

3. Missing the deadline for a qualified disclaimer. If family members such as your adult children don't want or need the money in an inherited IRA, they can "disclaim" all or part of the inheritance. If a qualified disclaimer is made within nine months of your death, the IRA assets will pass to the secondary beneficiaries you've named—perhaps your grandchildren. That can keep the IRA going for a longer period of time as long as the disclaimer is made before the deadline.

4. Failing to consider all of the implications of a disclaimer. As useful as disclaimers can be, they also can have unintended consequences, perhaps shortchanging an heir who later needs the money. And once a disclaimer is made, it can't be rescinded.

5. Taking a lump-sum distribution. This is an option for beneficiaries of an inherited IRA, but it can create a spike in income tax, which could include a shift to a higher tax bracket, and could have other unwanted consequences. This decision, too, can't be undone.

6. Failing to analyze account rollovers for spouses. A spouse who inherits an IRA has added flexibility and can choose to roll over funds to his or her own IRA, a move that may delay when RMDs must begin. And if an inherited IRA is payable to a spouse, that person won't be subject to the usual 10% penalty for early withdrawals before age 59. But leaving an IRA to someone other than a spouse may help the family accumulate more wealth over time. ●

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. ●

Taking Aim At Target Date Funds

"Target date" mutual funds can be a convenient way to invest for retirement, college savings, or other investment goals. Also known as life cycle funds, these diversified investments provide a "glide path" toward a future objective, ratcheting down investment risk as you get closer to the time you'll need the money. In some cases, target date funds are actually "funds of funds," allocating their assets to other mutual funds.

Yet despite their advantages, target date funds aren't right for everyone. Here are several key considerations:

Glide path: This provides the formula for allocating assets within the fund. When you approach the target date, the allocation usually skews more to the conservative side. That makes sense as a way to cut the risk of losses when you're about to use the money. But you're not required to cash out when the target date arrives, and continuing to keep your money in very low-risk investments may not make sense in your situation.

Portfolio diversification: Whether you have a target date fund in a tax-deferred retirement plan or in a taxable brokerage account, you may be inclined to treat it as stand-alone investment. But it's important to think about how it fits with other holdings in your portfolio. If you don't look at all of your investments collectively, you could end up with too much or too little in a particular kind of investment, reducing your overall diversification and possibly increasing the risk of your investments in ways you didn't intend.

Expected retirement: Investors often zero in on retirement as the target date. But what if your plans change? You might end up retiring early or working longer than you expected—and that could put your current goals out of line with the glide path of the fund. If that happens, you could choose a different target date fund, or make adjustments in other parts of your portfolio.

Fees and expenses: The expense ratio of a target date fund may be a weighted average of the expenses of underlying funds, plus the fund could tack on other fees to cover management costs. It's important to know what you're paying, so try to educate yourself about your funds' fee structures.

Risk factors: Target date funds often are touted as low-risk investments. But there's an inherent risk in almost any kind of fund, and target date funds certainly weren't spared during the stock market downturn of 2008-09. Because many target date funds include a healthy dose of stocks, yours could end up being more volatile than you expect.

Target date funds can be an appealing way to diversify your investments and give you a smooth path to a future financial goal. However, other factors may come into play, so make sure to take the big picture into account. ●

6 Common Medicare Myths

(Continued from page 1)

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. ●

Milestone Financial Planning, LLC
733 Main Street • Dunstable, MA 01827 • (978) 649-8875
2 Commerce Drive • Bedford, NH 03110 • (603) 589-8010