Sixty-something: Key Planning Considerations in Your Sixties

FIDUCIARY™ TRUST

Retirement Insights

Turning 60-something puts you in good company, with over 10,000 individuals turning 65 in the United States every day according to the Department of Health and Human Services. Although life as a 60-something varies greatly from person to person, there are common considerations for everyone.

Learn More:

For more information on Fiduciary Trust visit:

fidtrustco.com

or contact:

Jody R. King, JD, CPA
Vice President & Director of Wealth Planning

king@fiduciary-trust.com
617-292-6799

Retirement

Whether you prefer to retire now or never, stepping back to honestly assess the dynamics of your situation is important. Ideally, how long would you and/or your spouse prefer to continue working? What does retirement look like for you? How do you plan to spend your time if you are not working? What are your hobbies? Where do you plan to live? Do you or your spouse have health or mobility issues that should be considered? Have you met with your financial advisor to review your finances and determine how your financial resources align with your financial goals?

- **Financial Goals:** Excluding income taxes, how much are you spending today? How will your spending change as you age? When you retire you may choose to travel more, but as you approach later life that may not be realistic. The longer your retirement the more important it is to remember the impact of inflation and how costs will increase. Do you hope to make gifts to your children or grandchildren or pay for their education? Are you looking to purchase a second home? All of these considerations, and many more, should be incorporated into your financial plan as you consider retirement.
- **Outliving Your Resources:** As healthcare improves and life expectancy climbs, it may be prudent to project living longer than you may think. For every centenarian alive today, it is expected that there will be 15 alive in 2050. In addition, it is not always a question of how long you will live, but how well you will be as you live.
- **Debt:** Consider paying off any debt. Your financial flexibility during your retirement years will be greater if you are not burdened with debt service.

Asset Allocation and Income

Your 60s are a good time to revisit your asset allocation and confirm that your allocation is appropriate for your risk tolerance. It is important to have an appropriate asset allocation for your age and spending needs. A good financial advisor will counsel you not to get too conservative in your allocation as you likely have many retirement years ahead and therefore a long investment time horizon. Mentally it can be challenging to switch from an asset accumulation mode during your working years to utilizing your saved resources to support your lifestyle. As long as you have a sound plan in place, beginning to spend from your nest egg should not be a concern. Similar to a paycheck during working years, most find it easier to make monthly transfers from investment accounts to a checking account to supplement other income sources.

- **Social Security:** When to claim Social Security is often debated, with the right answer varying by person. Important factors in the claiming decision include age, marital status, financial need, anticipated longevity, and employment earnings. Most individuals can begin benefits as early as age 62 or can increase the amount of their monthly benefit if they delay taking benefits for any period up to age 70 if claiming on their own benefit, or up to their full retirement age (FRA) if claiming spousal benefits. FRA is based on year of birth and will range between age 65 and 67. Electing benefits before your FRA results in a decrease in your monthly benefit for each month you collect before your FRA, up to a maximum 30% permanent reduction in monthly benefits. Deferring a benefit based on your own employment record beyond your FRA allows you to receive delayed retirement credits (DRCs) for every month you defer up to age 70. This translates to a permanent increase in your benefit of 8% for every year you defer. If your FRA is age 67 and you take benefits at age 62, your monthly benefit will be 30% lower than if you wait until age 67. If you defer claiming your own benefit until age 70 with a FRA of age 67, your monthly benefit will be 24% higher than if you claimed at age 67. If you are married with a higher benefit, your surviving spouse will step into your shoes to receive your higher benefit. Be aware that if you are claiming before your FRA, your benefits will be decreased if your employment income exceeds certain limits.
- **Individual Retirement Accounts (IRAs):** If you have a traditional IRA, once you have turned age 59½ you can withdraw funds from these accounts without penalty, but unless you have made after tax contributions to your IRA, every dollar you withdraw will be taxable as ordinary income. Changes to the tax law have increased the age to begin taking Required Minimum Distributions (RMDs) from your IRA, which will be taxable as ordinary income, from age 70½ to age 72 for those turning 70½ after December 31, 2019. In all cases once you reach age 70½, you have the option of making up to $100,000 per year in charitable gifts directly to qualified charitable organizations from your IRA without recognizing the distribution as income with an adjustment for any tax deductible IRA contributions made after age 70½. These distributions are called Qualified Charitable Distributions (QCDs) and can be used to satisfy your RMD. Knowing this during your 60s will help you plan.
- **Roth IRAs:** If you have a Roth IRA, you will not be required to take RMDs from your Roth regardless of age. If you have a Roth 401(k) and have not yet established a Roth IRA, you should do so now to begin the five-year clock that allows you to withdraw earnings tax free. Note that Roth 401(k)s do require an RMD.
- **Pension Elections:** If you are eligible for a pension from an employer, pay attention to the elections that can be made around benefits, including when benefits will begin and what amount, if any, would continue for your surviving spouse. You should be aware that if you are receiving a government pension your Social Security benefits may be decreased by an offset.
- **Annuities:** With a desire to provide a steady stream of income for a lifetime, some individuals purchase annuities. Although they may seem attractive, there are a number of downsides to annuities, including embedded fees and lack of flexibility with limited access to funds regardless of need. The taxable portion of annuity distributions are taxed at ordinary income tax rates, and if the annuitant dies prematurely his/her family will not necessarily benefit. Over a long retirement, the purchasing power of fixed distributions will erode significantly due to the impact of inflation. If you determine that annuities belong in your plan, be aware of their limitations and the motivation of those selling the annuities, and make sure they are only a modest component of your plan.

Insurance

Review your insurance needs. Is your umbrella policy the right amount given your asset levels? Do you still need the life insurance you have, or do you need more? If you do not have long-term care insurance but may be interested in obtaining coverage, doing so sooner than later will help to manage the cost and increase the likelihood of qualifying for coverage. Remember that Medicare does not provide coverage for nursing home or most other care situations unless the stay is preceded by at least a three-day hospital admission, and then only provides coverage for a maximum of 100 days. Medical insurance, including Medicare and related supplemental policies, are important to focus on in your 60s.

- **Medicare:** If you or your spouse have paid Medicare taxes for at least 10 years, you are likely eligible for Medicare at age 65. If you fail to sign up for Medicare at age 65, you will pay a 10% surcharge for your lifetime for every 12-month period that you were eligible but not enrolled, unless you have "creditable coverage" from you or your spouse's employer. COBRA coverage and retiree health benefits are not considered creditable coverage. In addition, if your employment-related health insurance is through a small employer, you may still need to sign up for Medicare coverage as the insurance company may consider Medicare as the primary benefit source whether you have Medicare coverage or not. Once you sign up for any part of Medicare, you are no longer eligible to contribute to a Health Savings Account (HSA).
- **Medicare Costs:** Medicare Part A provides hospital and inpatient care. Part B covers doctor visits, lab work, medical equipment and other outpatient services. Part C is Medicare Advantage, a private insurance alternative to original Medicare. Part D provides prescription drug benefits. Although Part A typically does not have a cost, Parts B and D do. For 2019, Part B costs begin at $135.50 per person, per month, but increase to a maximum of $460.50 per person, per month, for individuals with modified adjusted gross income (MAGI) above $500,000 and for married couples with MAGI above $750,000 (calculations are based on income from two calendar years prior to the current year, with 2019 premiums based on 2017 tax returns). Unless electing Part C, most individuals also obtain private supplemental coverage, often called a Medigap policy, to cover items not covered by traditional Medicare. Which of these policies is best for you will depend on where you live, your health situation, and for what doctors and benefits you want access.

Estate Planning

Revisit your estate plan and make sure your core plan meets your wealth transfer goals. By this time, you may know your children and grandchildren's strengths and weaknesses and can make sure your plan appropriately provides for and protects them. Key roles to revisit: who is named as healthcare agent, attorney-in-fact under your durable power of attorney, trustee, and personal representative. Also make sure your beneficiary designations are still appropriate.

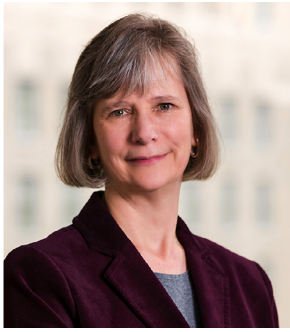
- **Incapacity Plan:** While you are fully competent is the time to consider and document how you would prefer to have things handled if you ever have diminished capacity. Agreeing ahead of time that you will listen to a particular person around concerns about your capacity for financial decision making or

Video:

View our video on Key Planning Considerations in Your Sixties at:

fidtrustco.com/60s-video

Author



Jody R. King, JD, CPA
Vice President & Director
of Wealth Planning

driving can help to ease the ultimate tension. Also it is a best practice to make sure your financial advisors know who to contact, and have the legal ability to do so, if they are concerned that you are making decisions as a result of undue influence or that are threatening your financial well-being.

- **Conversations with Children:** If you have not already talked to your children about wealth transfer and your estate plan, your 60s may be an appropriate time to start. How much you disclose is up to you, but many families benefit from making a sometimes-taboo topic more comfortable.

Care and Support

Will you need additional support to maintain your independence, or maybe long-term care? Where would you plan to live if you do need additional support? Long-term care insurance can be costly and difficult to obtain depending on your current health situation. If you are planning to rely on Medicaid or other government benefits to help pay for care, be aware these programs generally have limits on assets and income and may have up to a five-year look back on gifts.

- **Your Wishes:** Having conversations with family members and other key individuals to make sure your wishes are known will increase the likelihood that your healthcare decisions are made in a manner you desire. Conversations may help lessen the burden on family members, as they know they are making decisions in line with what you want.

My Social Security Online

If you have not already established your My Social Security Online account, do so immediately. Have a copy of your credit report beside you when you set this up as information from your credit report is used to verify your identity. My Social Security Online will allow you to estimate benefits and eventually allow you to set up direct deposit and access other information. Setting up your account now also helps protect you from someone else establishing your account fraudulently.

Credit Reports

Continue (or begin) to monitor your credit profile by obtaining your free annual credit reports from the three major credit reporting agencies. Consider freezing your credit with the three agencies in order to limit your risk of identity theft.

The decade of your 60s is often the entryway to retirement. Taking time to revisit your financial plan and have conversations with family members about how you hope to live out your golden years may help give you the peace of mind to truly look forward to your next chapter.

Learn More:

For more information visit:

fidtrustco.com/services

or contact:

Jody R. King, JD, CPA
Vice President & Director
of Wealth Planning

king@fiduciary-trust.com
617-292-6799

Update January 8, 2020

FIDUCIARY™
TRUST