Financial Considerations – Engaging with Aging

PART I: A Few Personal Financial Management Considerations

1. Social Security Benefits

The Social Security Administration (SSA) offers different benefit types, including Retirement, Disability, Family, and Survivor. The most common benefits are Retirement benefits, which you are eligible for if you are 62 years or older and have worked and paid Social Security taxes for at least 10 years (40 quarters). Even if you have not worked, you may be eligible to receive benefits on your spouse's record.

You are entitled to full retirement benefits (also called the "Primary Insurance Amount") at your Full Retirement Age (FRA), which is between 66 – 67 depending on your birthday. However, you are eligible to begin receiving benefits at 62 but will take a 25% - 30% permanent reduction in monthly benefit compared to what you would receive by delaying to your Full Retirement Age. Conversely, if you delay past your full retirement age up to age 70, you receive a permanent 8% annual increase in benefits for each year you delay.

The decision of when to start Social Security benefits will depend on your current cash flow (do you need the income now, or can you wait?), your health and life expectancy (do you expect to live into your 90s and so can benefit from receiving the delayed Social Security benefit?), and your marital situation (will your spouse be claiming on their own record or on yours?).

In addition to Retirement benefits, many people are eligible to claim Survivor and Family benefits on your record when you die. These include your spouses and ex-spouses (age 60+, have not remarried until age 60 or later, and if an ex-spouse, that the marriage lasted 10+ years), unmarried children (age 17 or younger, unless disabled or in school), disabled individuals, and dependent parents. Some of those individuals – spouses and children – may also be eligible for Family benefits on your record even while you are still living. There are many nuances in eligibility and claiming strategy to explore for each unique individual's family situation.

Please note that 0% - 85% of Social Security benefits will be taxable at the federal level depending on your other income. Your Medicare Part B premium and any additional IRMAA surcharge is usually deducted from your Social Security check as well. If you have not done so, it is a good idea to make an account on SSA.gov (mySocialSecurity). This will allow you to access your personalized benefit estimate and associated planning tools.

2. **Required Minimum Distributions (RMD)**

If you have tax-deferred retirement accounts, such as IRAs, 401(k)s, 403(b)s, SEP-IRAs, etc., you are required to take minimum distributions annually beginning between age 70.5 – 75 depending on your birth year. For those born between January 1st, 1951 – December 31st, 1959, your required beginning age is 73, and for those born after January 1st, 1960, it is age 75. You must take your first RMD by April 1st of the year following the year you reach the required beginning age. However, you may be able to delay your RMD from a qualified plan, such as a 401(k), if you are still actively working at the plan-sponsored employer when you reach that age.

RMD calculators are usually available on your custodian's website (i.e., Fidelity, Schwab) or through the IRS worksheets directly. The amount of the RMD must be withdrawn from the account during the calendar year to avoid penalties up to 25% of the amount.

Please note that every dollar withdrawn from a tax-deferred account, including RMDs, is taxable income to you. If you are just beginning RMDs, you may want to elect federal and CT state tax withholding from the amount withdrawn to ensure you do not receive a surprise tax bill when you file. The increase in taxable income from these RMDs may also increase the percentage of your Social Security benefits that are federally taxable, as well as your Medicare premium surcharge (called IRMAA).

It is important to highlight that there are different rules for required distributions you must take from IRAs or accounts that you inherit from someone who has passed away, such as a parent or spouse. These are far more complicated than the standard RMD rules above, and depend on the relationship to the deceased, the year of death, and the age of the decedent. Please reference IRS resources directly if you own an Inherited IRA account: https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-beneficiary. In addition, new legislation was confirmed last year that changed the required distributions for certain inheritors beginning in 2025, so please confirm the rules that apply to you even if you have had the account for many years.

3. **Portfolio Asset Allocation**

Many people have saved for many years in retirement accounts through work, letting those accounts grow over time while living off their paycheck earnings. However, when retired, there is a natural shift to use these retirement savings to fund living expenses.

What happened if someone had saved $30,000 in a retirement account, all invested in the stock market, and retired in 2008? With a market drop of 37% that year, their account might only be worth $18,900 at the end of the year. While the stock market recovered those losses within 5 years and has since far outpaced the growth, the retiree would not have experienced that same recovery because they likely needed to use the remaining $18,900 to live on and therefore could not keep it invested. This example highlights the importance of managing your asset allocation – the overall mix between stocks and bonds – throughout your retirement. In general, stocks have a higher growth potential and more volatility (both up and down!), and bonds tend to be more stable with less room to grow.

In years when you are working and saving, a high allocation to stocks is often appropriate, because you do not need to withdraw from the accounts. They can weather market crashes like 2008 and recover all the losses long before retirement begins. However, in retirement, you may need a mix of stocks and bonds to provide you with some growth potential but also with stability for withdrawal. The specific mix will depend on your own cash flow needs, legacy goals, and other assets.

You can start by reading your account statements, which usually show the stock/bond allocation. You may be surprised – as the market has grown in recent years, many retirees find that they are taking on more risk than intended. As a rule of thumb, money that you need to use before the next 3 – 5 years should not be invested in stocks, as you may not have time to recover from a market downturn.

4. **Umbrella Insurance**

Many people often have sufficient home and auto insurance but may not be aware of the importance of umbrella liability insurance. Umbrella liability insurance kicks in after the underlying liability insurance on your home, auto, or boat policies in the event of an unexpected and litigious claim. It is usually the least expensive type of insurance, with $1 mil of coverage at a cost of ~$300 - $500 per year, and it protects your assets that are otherwise exposed to creditors.

To determine the level of umbrella insurance you need, this calculator can be helpful: https://www.kiplinger.com/personal-finance/insurance/umbrella-insurance/603237/how-much-umbrella-insurance-do-i-need. It begins with your Net Worth and subtracts out items that are already protected, such as a portion of your home equity. Please note that in Connecticut, the protected value of your home equity may only be up to $75k (or $150k if married) due to a state homestead exemption. Umbrella insurance can often be bundled with your home and auto insurance for a discount.

5. **Long Term Care Planning**

Most of us know someone – a parent, friend, colleague, or relative – who has needed some sort of living assistance as they get older. One of the most common questions people ask is how to financially protect against an unexpected long-term care event.

One option is long-term care insurance, but this is prohibitively expensive for most people. The majority of people self-insure, relying on family or church communities for assistance, their savings and home equity to pay for care, and often use public funding as a backstop as well. Genworth offers a helpful “Cost of Care” tool to start the conversation: https://www.genworth.com/aging-and-you/finances/cost-of-care.

Regardless of your financial position, proactive planning is key. Long before you anticipate needing any sort of living assistance or services, map out your intentions and wishes for any care you may need. Do you want to stay at your home until your death? If so, you may need to do some projects now to make it age-in-place friendly. Do you want to move to an assisted living facility? Start visiting and interviewing these places to understand the cost, benefits, and lifestyle offered. Do you expect that your children will participate in your care? Have conversations with them about it to understand their intentions and plans. Considering these different facets earlier – and planning accordingly – will give you and your family peace of mind.

PART II: Estate Planning, Family Legacy, and Charitable Gifting

Proper estate planning is one of the kindest gifts you can give to your loved ones. In addition to establishing the key documents discussed during the presentation (Trust, Will, Advanced Healthcare Directives, Power of Attorney), many people want to engage in family legacy gifting and charitable gifting during their lifetimes.

1. **Family Gifting**

In 2025, you can give up to $19,000 per person without triggering any requirement to file a gift tax return. Gifts are not taxable to the recipient. If you are in a position to pass along some of your wealth during your lifetime, this is one way to do it without adding any administrative burden to your annual tax filing.

Another way to pass along a family legacy is through establishing a college savings plan (or “529 Plan”), usually for a grandchild. 529 Plans offer a tax-efficient means of saving for education, because all the earnings in the account are withdrawn tax-exempt, provided that the funds are used for qualified educational expenses. This includes college room and board, tuition, books, equipment, and even up to $10,000 per year that can be used for K-12 education. In a typical process, one would open an account, name a grandchild as beneficiary, contribute money to the account, and invest it accordingly. The benefit in these plans stems especially from the tax-exempt growth.

Connecticut also offers a tax deduction of $5,000 per individual (or $10,000 for married couples filing jointly) per year for contributions to a Connecticut 529 plan. If you contribute more than that in one year, you can carry over the deduction for five successive years.

2. **Tax-Efficient Charitable Gifting**

You can also give to your church, charities, and similar organizations in a tax efficient manner during your lifetime. Three methods of doing this are the following:

- ***Qualified Charitable Contributions***

In 2025, individuals over age 70 ½ can contribute up to $108,000 *directly* to charity from their Individual Retirement Accounts (IRAs). In doing so, they can simultaneously meet their gifting intention AND fulfill a portion of their Required Minimum Distribution (RMD) for the year. As RMDs are otherwise taxable income, this provides overall tax savings that are usually higher than making after-tax contributions as an itemized deduction. If one is over 70 ½ and plans to give anyway, it may make sense to give from retirement accounts to give without paying tax on the distribution. Many IRAs allow you to even get a checkbook for your account, so the process can be as simple as writing checks from your IRA to your church, for example.

- ***Donor-Advised Fund***

Donor-Advised Funds (DAFs) are investment vehicles created for the sole purpose of giving. Donations made into this account receive a full tax deduction in the year you make the contribution. In future years, you can recommend grants out of the account and gift the money periodically to different organizations. In addition to accepting stocks, bonds, and other securities, many of these DAFs accept real estate interests or business ownerships. If you want to donate anything besides cash, this may be an appropriate intermediary for the gifting.

- ***Donating Appreciated Stock***

Do you have a stock you've held for years that has grown significantly over time? If so, it probably has embedded capital gains, meaning that if you sold it, you would have to pay tax on all the growth it has experienced. Instead of paying that tax, you can gift the appreciated stock directly to a charity, and take the full market value deduction on your tax return. A Donor-Advised Fund, as described above, may be a helpful tool in implementing this strategy.

Contact me with questions! Alyssa Crews - email address: acrews@silveroakwa.com; Cell #360-771-0954