PARTNERS
WEALTH MANAGEMENT
Fourth Quarter 2016
(630) 778-8088/info@partnerswealth.com

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)

Need Help Navigating Medicare?

Are questions concerning eligibility, selecting the appropriate coverage option(s), open enrollment or determining next steps, getting in the way of your Medicare decisions?

Already covered by Medicare and wondering if/how you might be able to save money?

Wondering what you should keep in mind while comparing your options?

We would like to introduce you to our Director of Medicare Solutions, Mike Bonfiglio. He has partnered with our firm in an effort to provide you with an added resource to assist with your Medicare plan enrollment and plan comparisons.

We look forward to providing you with the guidance you may need assessing your Medicare needs. Whether it is a desire to better understand the drug coverage stages or finding the right Medicare supplement insurance plan for you, we are here to help. If you are interested in learning more about this resource, please contact us at 630-778-8088. We would be happy to schedule your appointment with Mike to work through your Medicare concerns.

John

Why Would You Take Your RMDs Sooner?

Is it time for you to begin taking required minimum distributions (RMDs) from your retirement plans? The rules for 401(k)s, other employer-sponsored plans, and traditional IRAs generally call for these payments to start after you reach age 70½ and to continue each year. But you don't actually have to begin RMDs until the "required beginning date" (RBD) of April 1 of the year *after* you turn 70½.

Nevertheless, you might bypass this respite. Why would you do that? Because you still must take another RMD later that year. Thus, you would be doubling up on payouts and have to pay more tax.

Although your savings in 401(k)s and traditional IRAs grow without being taxed along the way, you eventually must start receiving RMDs, taking one each year by December 31. These RMDs generally are taxed at ordinary income tax rates.

If you're still working and don't own the company you work for, you may be able to postpone withdrawals from an employer-sponsored plan with that company until you retire. But this exception doesn't apply to traditional IRAs.

The amount of the RMD is based on IRS life expectancy tables and the value of your accounts on the final day of the previous tax year. Your financial advisers or the financial company holding your account can provide assistance in computing the amount.

The penalty for failing to take an RMD is equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and any smaller amount you did withdraw). For example, if you're required to take $20,000 and you're in the 28% tax bracket, the penalty for failing to withdraw is $10,000, plus you'll owe $5,600 in federal income tax on the distribution.

If you postpone your first RMD until the following year, you'll have to take two RMDs in that year. If you remain in the same tax bracket, that will double the tax you owe, or the extra payment may push you into a higher tax bracket. Going back to our example of an annual $20,000 RMD, you'll have to take two RMDs for a total of $40,000 in the following year. Suppose that $10,000 of the extra amount is taxed at the 33% rate. Your total tax bill on RMDs for that year comes to a whopping $11,700 (28% x $30,000 + $10,000 x 33%).

Furthermore, doubling up on RMDs increases the possibility you'll have to pay the federal surtax on "net investment income," and it could hike your state income tax liability as well.

As you approach your RBD, consider your options. In many cases, you'll be better off taking your first RMD in the year in which you turn age 70½, rather than the following year. ●

4 Cornerstones Of Diversification

How can you balance the quest for investment rewards against the potential risks? Part of this involves your personal comfort level and your investing timetable. Invest too conservatively early in your career or too aggressively late in life and you might fall short of your objectives.

But diversification is the chief tool of this balancing act. It can help you reduce the risks of your portfolio while still pursuing rewards by spreading out your investments over several kinds of assets—an approach that also may lessen the impact of the ups and downs of volatile markets. (Of course, diversification doesn't ensure a profit or guarantee protection against a loss, especially in a declining market.)

There are numerous ways to diversify within a portfolio, but you can build a basic framework on these four cornerstones:

1. Domestic stocks: Typically, this is the most aggressive part of a portfolio, likely providing the greatest potential for reward. Historically, stock market investments have outpaced most other kinds of holdings. Nevertheless, the market is volatile and periodically experiences downward spirals, so to take advantage of the potential long-term outperformance of stocks you have to stick to your plan over the long haul. It's the value of stocks when you decide to sell, not what they may be worth during the time you hold them that truly counts.

2. Domestic bonds: Bonds can serve as a counterweight to stocks because the prices of the two kinds of investments sometimes move in opposite directions. Again, there are no guarantees that this will happen or that holding both kinds of assets will have the desired effect. If safety is a primary concern, you might increase your investment in U.S. Treasury bonds or high-quality corporate bonds, which tend to offer less volatility, though with somewhat lower returns. In other cases,

Act Fast For Discounts On Business Valuations

Time may be running out on the chance to discount the valuation of business interests that are transferred by majority shareholders. Prompt action now, before current tax rules are changed, could result in potentially enormous savings.

Much about this likely change remains up in the air. The new regulations that have been proposed won't take effect officially until final rules are issued, and there could be modifications between now and then. Court challenges could further muddy the waters, and the outcome of this fall's election also might make itself felt.

Still, it's important to know what could happen and to understand the impact the proposed rules could have on you, your business, and your family.

Under the old rules, owners of family limited partnerships (FLPs) and limited liability companies (LLCs), among other business entities, often have been able to transfer minority interests in the company to other family members at a significant discount. The specific rules are complex, but the basic idea is that the values of those interests were reduced because they would be difficult to sell on the open market.

You could transfer minority interests to other family members. Although such transfers would be subject to gift tax, that liability would be covered, at least in part, by the annual gift tax exclusion and the unified estate and gift tax exemption. Currently, you can make gifts of up to $14,000 per recipient, with an additional $5.45 million for transfers ($5.49 million in 2017).

Because you have been able to discount the value of the shares you transfer to family members, such transactions take up less of your exemptions and reduce the tax you owe if you exceed the exempt amounts. Depending on the circumstances, the discount might be as large as 50%.

But the IRS has worried that taxpayers have abused the rules through approaches that may include:

- Transfers of minority interests during the lifetime of the majority owner in which the owner loses the right to liquidate the business. This often happens through "deathbed gifts" made late in life.
- Working through taxpayer-friendly states such as Nevada to create exceptions to "applicable restrictions" that could limit discounts.
- Other transfers of nominal interests made to charities or other third parties that restrict the ability to liquidate the business.

The IRS contested these estate planning techniques several times in the courts, but taxpayers usually prevailed, most notably in a landmark 2003 case. The tax agency also lobbied Congress to change the laws, without success.

Now the IRS has overhauled the rules on its own. Under the proposed regulations, a transfer that results in a restriction or termination of a right or power associated with the transfer is treated as a "lapse," eliminating discounts.

There also will be a "three-year rule" that would affect transfers made within three years of the death of the majority owner making the transfer. In addition, the new regulations limit the ways that transfers can be restricted in order to permit discounts, requiring that the least restrictive state laws be used in such cases.

Finally, the regulations create a new list of "disregarded restrictions," effectively curtailing valuation discounts on the majority of transfers.

Individuals who want to take advantage of the current rules should speak to their estate-planning attorney. ●

you might opt for high-yield bonds with their higher returns and greater exposure to risk.

3. Short-term investments: Conservative investments such as money market funds and certificates of deposit (CDs) generally offer stability and help preserve your principal. Most CDs are backed by the Federal Deposit Insurance Corporation within generous limits. A main attraction of money market funds, which aren't federally insured, is their liquidity, but you do risk losing principal.

4. International investments: Foreign holdings in stocks and bonds can round out a portfolio. With international stocks, both your potential returns and possible risks may be higher than they would be with domestic stocks. International bonds, too, offer the opportunity for more reward at a greater risk. ●

5 Key Documents In An Estate Plan

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

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 young children. As the centerpiece of your estate plan, this is definitely one tool you can't be without. ●

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. ●

Partners Wealth Management | 1700 Park Street, Suite 200, Naperville, IL 60563 | 630-778-8088 | Fax: 630-778-8049 | www.partnerswealth.com | info@www.partnerswealth.com