



Roth Conversions and Medicare

Featured Speakers



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Post-Retirement Redzone

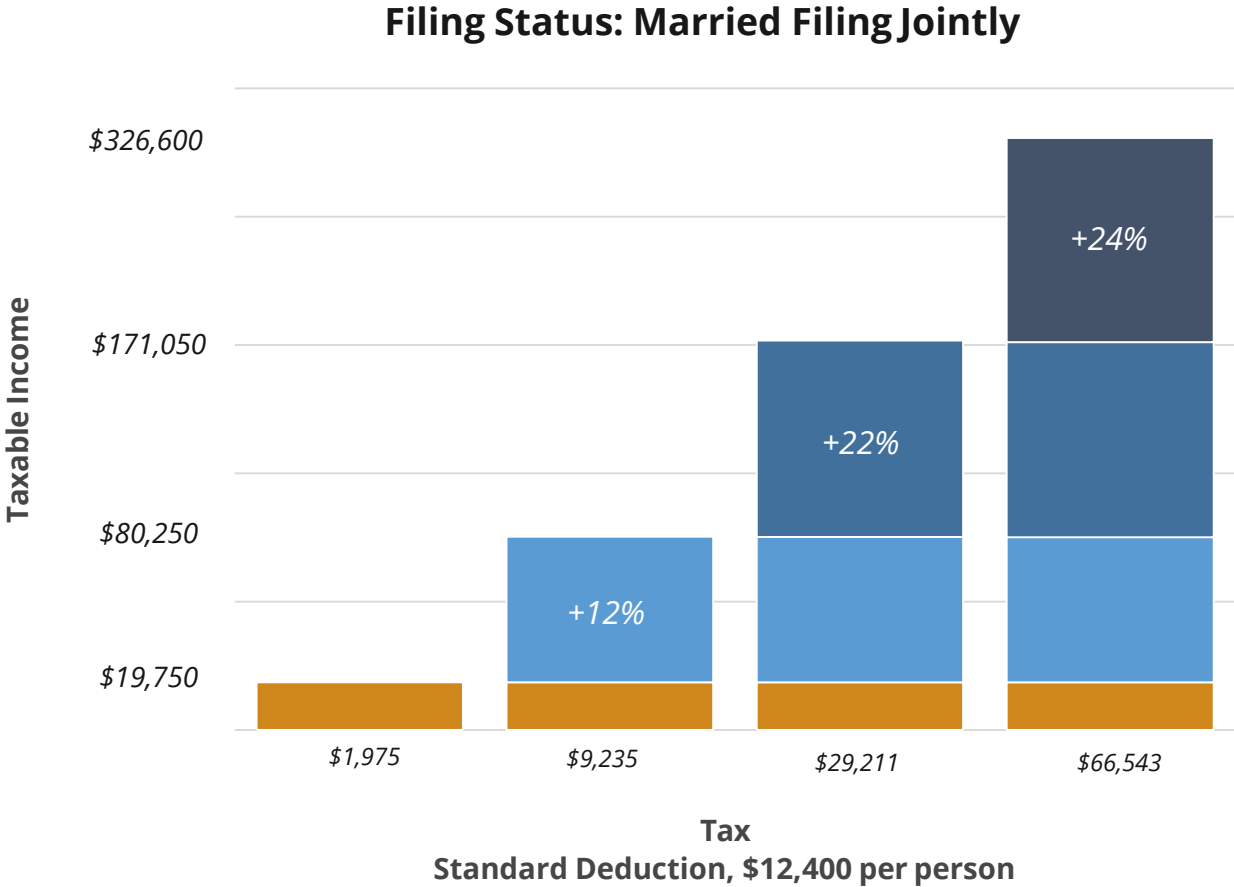
SOURCES OF INCOME

• Social Security	→	TAXABLE
• Private Pension	→	TAXABLE
• Military Pension	→	TAXABLE
• 401k/IRA	→	TAXABLE
• Retiree Medical Account (RMA)	→	NOT TAXABLE
• After-Tax Savings	→	NOT TAXABLE

Source: IRS.gov



Federal Income Tax - 2020



Source: IRS.gov



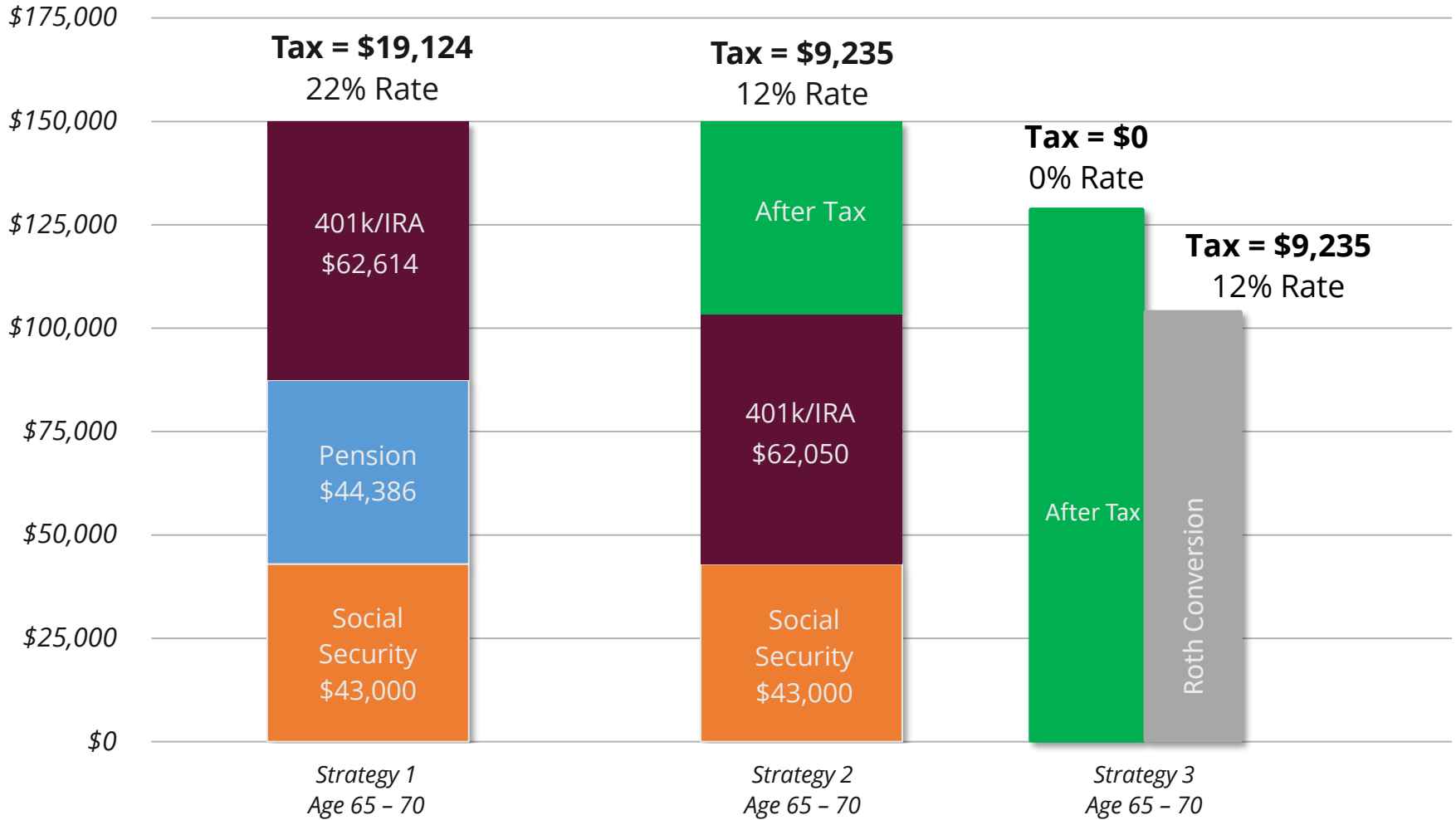
Post-Retirement Redzone

HOW WOULD YOU LIKE TO:

- Reduce your federal income tax liability?
- Increase your pension benefits?



Post-Retirement Redzone

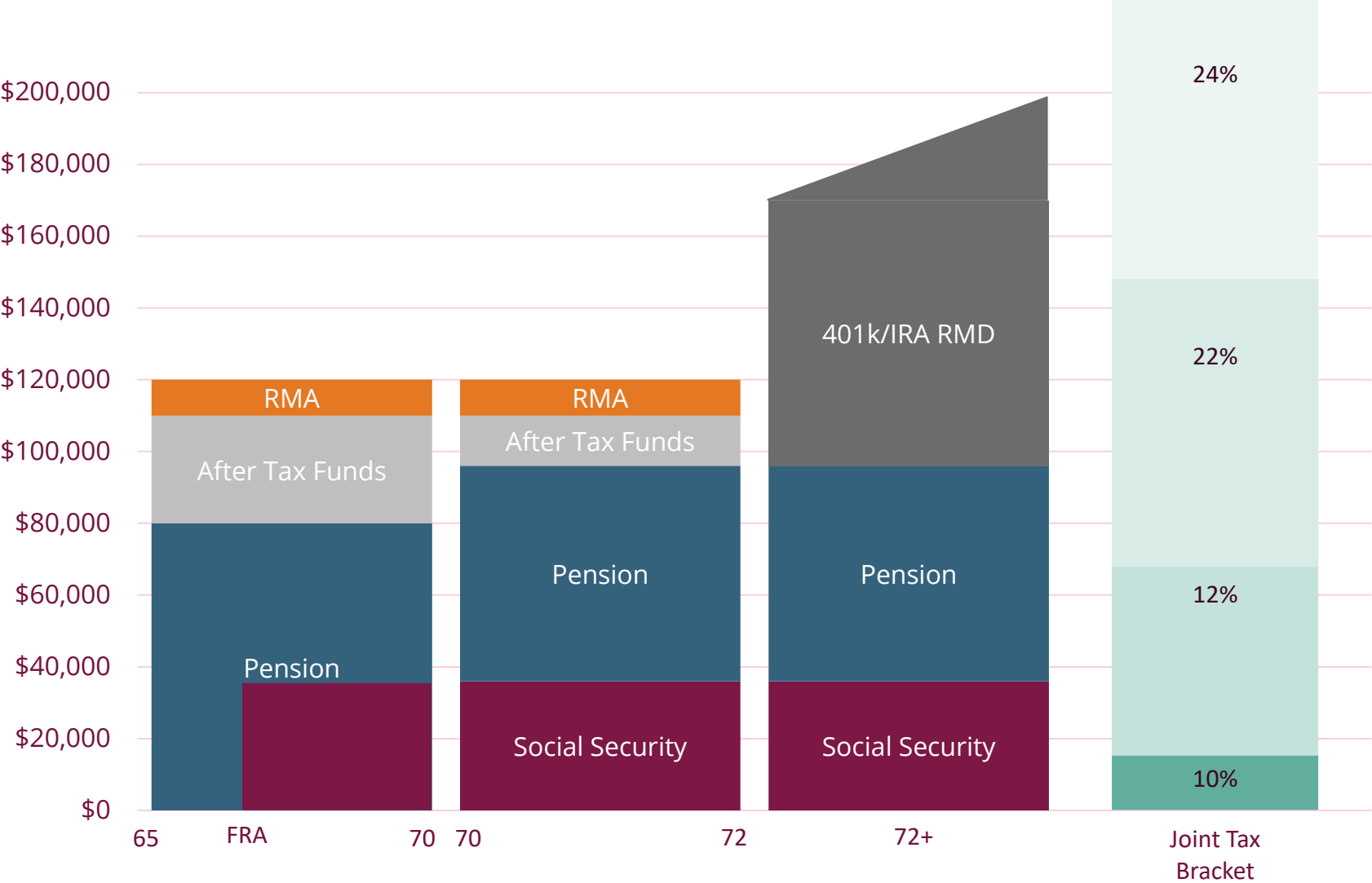


Source: IRS.gov

Tax Savings = \$9,889



Tax Minimization - Retirement



Source: IRS.gov



Medicare's Parts

- **Part A** – Hospital Insurance (free)
- **Part B** – Medical Insurance (premium)
- **Part C** – Medicare Advantage Plans
 - » *Includes Parts A and B plus extras (vision, dental, drugs,...)*
 - » *Private insurance companies to whom Medicare pays a fixed amount per participant*
- **Part D** – Prescription Drug Plan (premium – anyone with parts A and B is eligible)



Roth and Medicare

- Medicare Part B Premiums based on income
 - » *Brackets above base level add “IRMAA”*
 - *“Income Related Monthly Adjustment Amount”*
- Income used is MAGI
 - » *Medicare MAGI = AGI plus tax-exempt interest income*
 - » *Roth distributions are not part of AGI*
- Premiums are based on tax returns for 2nd year prior
 - » *2021 premiums will be based on 2019 income*



Medicare Part B Premiums

If your yearly income in 2019 was...		... Your monthly 2021 payment is	
File individual Tax Return	File Joint Tax Return	One Person	Two Persons
Below \$88,000	Below \$176,000	\$148.50	\$297.00
\$88,000 - \$111,000	\$176,000 - \$222,000	\$207.90	\$415.80
\$111,000 - \$138,000	\$222,000 - \$276,000	\$297.00	\$594.00
\$138,000 - \$165,000	\$276,000 - \$330,000	\$386.10	\$772.00
\$165,000 - \$500,000	\$333,000 - \$750,000	\$475.20	\$950.40
\$500,000 or above	\$750,000 or above	\$504.90	\$1,009.80



Medicare Part D

- Part D is drug coverage
 - » *Part D also has IRMAA, but much lower*
- United's Medicare Advantage Plan includes Part D
 - » *Base-level premium is covered in \$186 monthly charge*
 - » *But retirees must pay IRMAA*



Medicare Part D - IRMAAs

If your yearly income in 2018 was...		...Your monthly 2020 Part D IRMAA is:	
File individual Tax Return	File Joint Tax Return	One Person	Two Persons
Below \$88,000	Below \$176,000	Included	Included
\$88,000 - \$111,000	\$176,000 - \$222,000	\$12.30	\$24.60
\$111,000 - \$138,000	\$222,000 - \$276,000	\$31.80	\$63.60
\$138,000 - \$165,000	\$276,000 - \$330,000	\$51.20	\$102.40
\$165,000 - \$500,000	\$330,000 - \$750,000	\$70.70	\$141.40
\$500,000 or above	\$750,000 or above	\$77.10	\$154.20



Roth Conversion Considerations

- Positive impacts
 - » *If you have a substantial 401k, you have a brief window (age 65-72) to lower your RMDs*
 - » *That reduces out-year taxes and (maybe) IRMAAs*
 - » *Plus, your Roth balance grows tax-free*
- Negative impacts
 - » *Higher taxes now... but maybe a lower rate than future?*
 - » *Each year of conversions can impact IRMAA two years later*



Cares Act

- Temporary suspension of Required Minimum Distribution (RMD) for 2020 calendar year
- Many IRA owners do not want to convert IRA to Roth IRA if they must first take RMD and pay taxes on it (Roth conversions do not satisfy RMD)
- Roth conversions could look very attractive due to combination of lower tax liability, no 2020 RMD and possibility of future income tax increases



Secure Act

- The recently enacted Secure Act eliminated the “stretch IRA,” a strategy used by affluent investors to pass tax-advantaged money to their heirs
- New law requires most IRAs inherited by non-spouses to be drained within 10 years, which can lead to much higher tax liability to heirs
- Secure Act also delayed Required Minimum Distribution (RMD) from age 70 ½ to 72



We're Here to Help!

- Review Contribution plan for 2021
- Assess if Roth conversion strategies make sense for you
- Build a custom plan!

Would you like to discuss your specific situation?

Contact your Johnson Financial Group advisor or Chuck Allison today at 414.291.4503 or callison@johnsonfinancialgroup.com.



Thank You!
Questions?



Disclosure

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