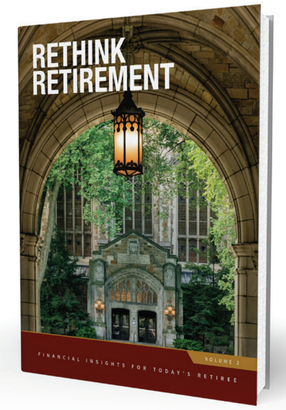
RETHINK RETIREMENT REVISIONS OVERVIEW



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Annual updates have been highlighted on the following pages.

PAGE 7 - SOCIAL SECURITY GROUND RULES

(Bottom of Paragraph Two)

for Social Security retirement benefits. Work, in this context, means an occupation where at least a certain amount of taxes were paid into the Social Security system. (In 2020, $5,640 is needed to qualify for a full year's credit.)[2]

ESTIMATED AVERAGE MONTHLY SOCIAL SECURITY BENEFITS PAYABLE IN JANUARY 2020	
All Retired Workers	$1,503
Aged Couple, Both Receiving Benefits	$2,531
Aged Widow(er) Alone	$1,422
Maximum Social Security Benefit, 2020, Worker Retiring At Full Retirement Age (66)	***$3,011/mo.***

PAGE 8 - SOCIAL SECURITY GROUND RULES (CONTINUED)

As noted, receiving $1,503 a month—or even $3,011 a month—from Social Security probably won't deliver a lavish retirement. However, such income should not be dismissed.

PAGE 8 - TOPPING TREASURIES

As of this writing, the yield on 10-Year Treasury notes was 2.56%.[6] Thus, someone holding $1 million worth of Treasuries would receive $25,600 a year in interest. The average Social Security payment of $1,503 a month produces $18,036 of annual cash flow: almost as much as the interest income from $1 million of Treasuries. The average couple receiving $2,531 a month from Social Security, or $30,372 a year, gets more cash flow than $1.25 million of Treasuries would generate. ***Social Security checks are extremely welcome in these times of low-yield bonds and bank accounts***.

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PAGE 9 - MIXING WORK WITH SOCIAL SECURITY

FRA is important for planning for several reasons. For one, benefits will be reduced if taken under FRA and earning above a certain threshold until FRA is attained. Here are the numbers for 2020:

RETIREMENT EARNINGS TEST EXEMPT AMOUNTS[5]	2020
Under full retirement age *NOTE: One dollar in benefits will be withheld for every $2 in earnings above the limit.*	$18,240/yr* ($1,520/mo)
The year an individual reaches full retirement age *NOTE: Applies only to earnings for months prior to attaining full retirement age. One dollar in benefits will be withheld for every $3 in earnings above the limit. There is no limit on earnings beginning the month an individual attains full retirement age.*	$48,600/yr* ($4,050/mo)

HYPOTHETICAL EXAMPLE. Kay Mathews was born in March 1955, so she will reach FRA in May 2021, when she reaches age 66 and 2 months. In 2020, at age 65, Kay starts to receive Social Security retirement benefits.

Suppose Kay earns $1,000 a month from working in 2020. That's under the allowance of $1,520 a month, so Kay's benefits won't be reduced. However, suppose Kay earns $2,000 a month from working in 2020. That would put her $480 a month over the limit. In the latter case, $1 in benefits will be withheld for every $2 in earnings above the limit. Thus, Kay's Social Security checks would be reduce by $240 a month: $480 divided by 2.

PAGE 10 - STARTING EARLY....

(From Hypothetical Example)

monthly benefit from Social Security. However, if she earns $2,000 a month, that would trigger a reduction of $240 a month, dropping her monthly benefits to $1,260.

The reduction of $240 a month would be returned to Kay in the future, through higher monthly benefits. That's not the case, though, with the $500 a month that Kay has relinquished by electing to receive benefits at age 62, rather than at 66.

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PAGE 16 - INCOME FROM IRAs

(Roth IRAs, Middle of Paragraph Four)

After age 72, traditional IRA owners must take at least certain amounts from their accounts each year, even if the money is not needed. Those RMDs typically are taxable, at the IRA own-

PAGE 17 - REGARDING RMDs

Whether there is a need or not, retirees will have income after age 72, from RMDs. An IRA owner must start taking RMDs by April 1 of the year after turning age 72. Subsequently, each RMD must be taken by December 31, every year. Traditional IRA owners never get too old for RMDs, as long as there is money in the account.

HYPOTHETICAL EXAMPLE. Jan Cole was born in September 1950, so she'll reach age 72 in September 2022. Jan can postpone RMDs until April 1, 2023. However, Jan will have to take her second RMD by December 31, 2023. Taking two RMDs in one year might increase Jan's income enough to put her into a higher tax bracket.

Many retirees take their first year's RMD in the year of turning 72, to reduce the tax bill. Going forward, Jan must take an RMD by December 31, each year. Even if she lives to age 100, Jan

PAGE 18 - NUTS AND BOLTS OF RMDs

The amount of the RMD will depend on the December 31 IRA balance, the previous year. For Jan, the balance on December 31, 2021, will determine the RMD for April 1, 2023, and the IRA balance on December 31, 2022, will determine the RMD for December 31, 2023.

PAGE 19 - NUTS AND BOLTS OF RMDs (CONTINUED)

HYPOTHETICAL EXAMPLE. Jan has $400,000 in her IRA on December 31, 2021. For her 2022 RMD, when she'll be age 72, Jan divides her $400,000 IRA balance by 25.6, the distribution period for age 72. The result—$15,625—is the least Jan can withdraw from her IRA in 2022 (or until April 1, 2023), in order to avoid a 50% penalty. Jan will repeat the same process every year, with an updated IRA balance and the appropriate distribution period.

PAGE 20 - TAX-EFFICIENT WITHDRAWAL STRATEGIES

- ☐ **Take some money from tax-deferred traditional IRAs.** In retirement, these withdrawals will be taxable, but the tax rate may be low. ***Before age 72, take out enough money to fill up a low tax bracket, if that's possible.***

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PAGE 21 - STRETCHING IRA DISTRIBUTIONS

(From Hypothetical Example)

1. Henry Johnson retires from work and rolls his 401(k) account to a traditional IRA. Starting at age 72, Henry takes only RMDs from this IRA.

4. At Irene's death, the IRA that started with Henry's 401(k) will pass from Irene to Jack and Jill. As non-spouses, the children do not have the ability to roll the funds into their own IRAs. Jack and Jill must take out all funds as taxable distributions within 10 years of Irene's death. There is no required pattern of these distributions.

5. ~~Instead, Jack and Jill decide to set up inherited IRAs. If the children are well-advised and act promptly, each can have their own separate inherited IRA. Each can make his or her own decisions with regard to the respective inherited account, and can take RMDs over their life expectancy.~~

6. ~~Jack and Jill can each name beneficiaries for their respective inherited IRA account. Any named beneficiary, including a surviving spouse, must continue the established RMD schedule~~.

PAGE 22 - STRETCHING IRA DISTRIBUTIONS (CONTINUED)

~~***This type of stretching, for a traditional or Roth IRA, can provide decades of cash flow for the IRA owner, a surviving spouse, children, and perhaps grandchildren.*** Regardless of whether a stretch IRA is planned,~~ IRA owners should always make certain the account's beneficiary form is up to date. When an IRA owner dies, the beneficiary designation will determine where the money goes, even if the decedent's will, trust, or divorce decree says something else. (The Estate Planning section of this course will have detailed information on the importance of beneficiary designations.)

PAGE 22 - STRETCHING BY DISCLAIMING

A disclaimer must be made within nine months of the IRA owner's death and before taking possession of the IRA assets and must satisfy certain other technical requirements. After the primary beneficiary disclaims the inheritance, the account will pass to the contingent or successor beneficiaries named by the IRA owner. Both partial and complete disclaimers are permitted. Non spousal IRA beneficiaries generally must take taxable distributions of all funds within 10 years of death of the account owner whom they inherited it from.

HYPOTHETICAL EXAMPLE. Mel Franklin dies with a $500,000 IRA. His wife Leila is the sole beneficiary and their daughter Vicky is the contingent beneficiary. Leila decides that she can live comfortably with $200,000 from Mel's IRA, so Leila disclaims $300,000 of the IRA, which passes to Vicky. Vicky must withdraw and pay income tax on all funds within 10 years of Leila's death.

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PAGE 28 - SPECIAL GOVERNMENT AND NONPROFIT RETIREMENT PLANS

	401(k)	403(b)	457(b)
Who is eligible?	Employees whose employers offer the plan (private employers, some nonprofit employers)	Employees of nonprofits such as public schools and some hospitals, charitable organizations	State and local government employees
Pre-tax contributions?	Yes*	Yes*	Yes*
Limits on employee contributions (2020)	Up to $19,500	Up to $19,500	Up to $19,500
Age 50+ catch-up contributions	$6,500	$6,500	$6,500

Row 8 (Continued)

Required minimum distributions[15]	April 1 following the latter of the year participant reaches age 72 or retires, if allowed by plan	April 1 following the latter of the year participant reaches age 72 or retires, if allowed by plan	April 1 following the latter of the year participant reaches age 72 or retires, if allowed by plan

PAGE 30 - OTHER TYPES OF RETIREMENT PLANS

(From SEP / Simple IRA Chart)

Maximum Annual Contribution (per participant)	Up to 25% of compensation, but no more than $57,000 for 2020.*	Employee: $13,500 in 2020. Participants age 50 or over can make additional contributions up to $3,000 for 2020. Employer: Either match employee contributions 100% of first 3% of compensation (can be reduced to as low as 1% in any 2 out of 5 yrs.); or contribute 2% of each eligible employee's compensation.**
Contributor's Options	Employer can decide whether to make contributions year-to-year.	Employee can decide how much to contribute. Employer must make matching contributions or contribute 2% of each employee's compensation.
Minimum Employee Coverage Requirements	Must be offered to all employees who are at least 21 years old, employed by the employer for 3 of the last 5 years and had compensation of $600 (in 2016-2020).	Must be offered to all employees who have compensation of at least $5,000 in any prior 2 years, and are reasonably expected to earn at least $5,000 in the current year.

*Maximum compensation on which contributions can be based is $285,000 for 2020.
**Maximum compensation on which employer 2% contributions can be based is $285,000 for 2020.

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PAGE 44 - CHAPTER 1: CHECK FOR UNDERSTANDING QUIZ

1. *The estimated average monthly Social Security benefit in 2020 is:*
   - a. $1,200
   - b. $1,461
   - c. $1,503
   - d. $1,660

PAGE 50 - MEDICARE

2020 MEDICARE COSTS AT A GLANCE[18]	
Part A Premium	Most people don't pay a monthly premium for Part A (sometimes called *"premium-free Part A"*). If you buy Part A, you'll pay up to $458 each month. If you paid Medicare taxes for less than 30 quarters, the standard Part A premium is $458. If you paid Medicare taxes for 30-39 quarters, the standard Part A premium is $252.
Part A Hospital Inpatient Deductible and Coinsurance	You pay: • $1,408 deductible for each benefit period • **Days 1-60:** $0 coinsurance for each benefit period • **Days 61-90:** $352 coinsurance per day of each benefit period • **Days 91 and beyond:** $704 coinsurance per each *"lifetime reserve day"* after day 90 for each benefit period (up to 60 days over your lifetime) • **Beyond lifetime reserve days:** all costs
Part B Premium	The standard Part B premium amount is $144.60 (or higher depending on your income). However, most people who get Social Security benefits will pay less than this amount ($130 on average).
Part B Deductible and Coinsurance	$198 in 2020. After your deductible is met, you typically pay 20% of the Medicare-approved amount for most doctor services (including most doctor services while you're a hospital inpatient), outpatient therapy, and durable medical equipment.
Part C Premium	The Part C monthly premium varies by plan.
Part D Premium	The Part D monthly premium varies by plan (higher-income consumers may pay more).

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PAGE 52 - PAYING A PREMIUM

Another issue for seniors to address is the amount they pay for Medicare Part B, which covers medical costs other than hospital stays. In 2020, the *"standard"* premium is $144.60 a month. ***However, many enrollees pay less—an average of $130 a month, for seniors whose Medicare Part B premiums are deducted from their Social Security checks—because of technicalities in the Medicare rules.*** Additionally, some seniors pay anywhere from $202.40 to $491.60 a month, depending on income levels.

IF YOUR YEARLY INCOME IN 2018 WAS (FOR WHAT YOU PAY IN 2020)[18]			YOU PAY EACH MONTH (IN 2020)
File Individual Tax Return	*File Joint Tax Return*	*File Married & Separate Tax Return*	
$87,000 or less	$174,000 or less	$87,000 or less	$144.60
Above $87,000 up to $109,000	Above $174,000 up to $218,000	Not applicable	$202.40
Above $109,000 up to $136,000	Above $218,000 up to $272,000	Not applicable	$289.20
Above $136,000 up to $163,000	Above $272,000 up to $326,000	Not applicable	$376.00
Above $163,000 and less than $500,000	Above $326,000 and less than $750,000	Above $87,000 and less than $413,000	$462.70
$500,000 and above	$750,000 and above	$413,000 and above	$491.60

Those are per-person premiums. A married couple with joint income just over $174,000 in 2020 would pay a total of $404.80 a month ($4,857.60 a year) for Part B, if both are Medicare enrollees. Their neighbors, with income just under $174,000, might pay about $3,470 a year for the same Part B coverage. For Part B premiums, *"income"* has a special calculation. *"Tax-exempt"* income from municipal bonds and muni funds will be included in MAGI (Modified Adjusted Gross Income), for the purpose of calculating Medicare Part B premiums.

Income-boosting activities such as Roth IRA conversions and taking capital gains may also increase Part B premium expenses. The bill for higher Part B premiums will appear two years in the future: income reported on a 2020 tax return, for example, will determine Part B premiums in 2022. ***Therefore, planning for Part B premiums can be added to income tax planning for high-income seniors.***

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PAGE 53 - PAYING A PREMIUM (CONTINUED)

(From Hypothetical Example)

Medicare Part D (prescription drug coverage) premiums also are income-tested. As a result, holding down income through savvy planning can save money on Part D as well as on Part B premiums. ~~*Note: Relevant income thresholds are frozen—not adjusted for inflation—until 2020, so an increasing number of seniors will be paying much steeper-than-standard premiums.*~~

PAGE 68 - ESTATE TAX PLANNING BASICS

Leaving assets to a spouse essentially defers estate tax, as a widow(er) who dies while unmarried may have a large taxable estate. However, not all assets are left to a spouse or to charity. Other assets also may be shielded from federal estate tax with a tax exemption. The federal estate tax exemption for deaths in 2020 is $11.58 million. Married couples may be able to pass twice that amount—$23.16 million—to their heirs without triggering estate tax.

2020 Annual Gift Tax Exclusion	$15,000
2020 Estate Tax/Lifetime Gift Exemption	$11,580,000 – 40% top tax rate

PAGE 69 - HOW THINGS USED TO WORK

HYPOTHETICAL EXAMPLE. Harry Gordon dies in 2020 with an $12 million estate, including his real estate, retirement plans, investments, and business interests. If Harry leaves everything

PAGE 69 - USING PORTABILITY

HYPOTHETICAL EXAMPLE. Planning to use portability, Harry Gordon does not put trusts into his estate plan. Instead, Harry leaves his $12 million estate outright to Fran. ***In addition, at Harry's death in 2020, the executor of Harry's estate files a federal estate tax return, IRS Form 706, electing to transfer the deceased spouse's unused exclusion (DSUE) amount to Fran, as the surviving spouse.***

If Harry has not made any gifts in excess of the annual gift tax exclusion amount (explained below), his entire $11.58 million DSUE will be transferred to Fran. If Fran dies in a year when the exemption amount is $12.52 million, she will have a $24.1 million federal estate tax exemption: her own $12.52 million plus $11.58 million from Harry. (Again, this assumes that neither Harry nor Fran made any taxable gifts.)

If Fran dies with $18 million in net worth, her $24.1 million exemption will allow all of her assets to go to their children. If Fran were to die with $24.11 million in net worth, her $24.1 million exemption would allow almost all of her assets to go to their children with scant estate tax. Fran's estate would be .01 over the limit and would owe just $4,000 in estate tax (the 40% estate tax rate times the $10,000 that Fran's estate would be over the limit), with portability.

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PAGE 72 - DON'T OVERLOOK THE GIFT TAX

(From Paragraph One)

Federal estate tax is *"unified"* with a gift tax. That is, making gifts may impact future estate tax. In 2020, the annual gift tax exclusion amount is $15,000. In other words, every

(From Hypothetical Example)

HYPOTHETICAL EXAMPLE. Al and Eve Hart have two grandchildren. In 2020, Al can give $15,000 worth of assets to their grandson Ivan and $15,000 to their granddaughter Gina. Eve

(Staring at Paragraph Five)

Typically, people won't have to pay gift tax. There's a lifetime gift tax exemption to match the estate tax exemption: $11.58 in 2020. ***Gifts over the exemption amount are taxed at 40%...with the tax paid by the giver.***

The annual gift tax exclusion is *"use it or lose it."* If someone fails to make $15,000 annual exclusion gifts in 2020, he or she can't double up with a $30,000 exclusion gift in 2021. What's more, checks must be cashed by December 31 in order for a gift to qualify in that taxable year. Therefore, retirees shouldn't wait until the last minute to make annual exclusion gifts.

PAGE 74 - CHAPTER 3: CHECK FOR UNDERSTANDING QUIZ

3. ***In 2020, the federal estate tax exemptic per individual is:***

- **a.** $4.5 million
- **b.** $5.49 million
- **c.** $11.58 million
- **d.** $12.29 million

ANSWERS. **1** - a. True **2** - d. All of the above **3** - c. $11.58 million

PAGE 84 - GLOSSARY

REQUIRED MINIMUM DISTRIBUTION (RMD)	A required minimum distribution (RMD) is the amount that traditional, SEP or SIMPLE IRA owners must begin distributing from their retirement accounts by April 1 following the year they reach age 72. Qualified employer plan participants may be able to defer RMDs until April 1 of the calendar year following the year in which they retire. RMD amounts must then be distributed by December 31 of year following the year in which they reach age 72 based on the current RMD distribution calculation amounts.

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PAGE 86 - GLOSSARY (CONTINUED)

STRETCH IRA	A tax planning concept that is applied to defer the distribution—and accompanying income tax—of a qualified employer account or an Individual Retirement Account (IRA) to a beneficiary or beneficiaries. A stretch IRA strategy allows the original owner of an IRA to distribute assets to a designated beneficiary. By using this strategy, the IRA can be passed on while beneficiaries enjoy tax-deferred growth as long as possible. Non spousal IRA beneficiaries generally take taxable distributions of all funds within 10 years of death of the account owner whom they inherited it from. The term "stretch" does not represent a specific type of IRA; rather it is a financial strategy that allows people to stretch out the life—and therefore the tax advantages—of an IRA.

PAGE 88 - APPENDIX

[5] Social Security Administration - Fact Sheet: 2020 Social Security Changes

[6] U.S. Department of the Treasury, Daily Treasury Yield Curve Rates, January 2020

[7] Social Security Administration: Retirement Planner - Full Retirement Age, April 2017

[8] Social Security Administration: Social Security Benefits - Benefit Reduction for Early Retirement, April 2017

PAGE 88 - APPENDIX (CONTINUED)

[16] Internal Revenue Service - Retirement Plans FAQs on Designated Roth Accounts, February 2017

[17] Marketplace Watch - Understanding Performance: The S&P 500 Index, by Paul A. Merriman, February 18, 2015

[18] Medicare: 2020 Costs at a Glance, January 2020

[19] Medicare: How to Compare Medigap Policies, April 2017

~~[20] Social Security Administration - Medicare Premiums: Rules for Higher-Income Beneficiaries, January 2018~~

[20] HSBC: The Future of Retirement Choices for Later Life, 2015

[21] Internal Revenue Service - Instructions for Form 706, November 2016

This material should be accompanied by "Rethink Retirement - Volume 2" (TC2000118-0222). This material is intended for financial educational purposes only and is not intended to give any tax or legal advice, nor is this material to be used to avoid any federal tax penalties. You are encouraged to seek advice from your own tax or legal counsel. You are encouraged to work with an estate planning team, including your own personal legal or tax counsel for your estate planning needs.

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