THRIVE
WEALTH STRATEGIES

Should You Retire Early With Obamacare?

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When are you going to retire?

The answer could be worth hundreds of thousands of dollars — or much more — over the full course of your retirement. It's worth getting retirement right, not just for the income you can expect to receive from Social Security, but also because of the way Medicare works for retirees at different ages.

The Full Retirement Age (FRA) for Social Security was set at age 65 for many years, but today, it begins at age 66. Younger retirees may have to wait until they're 67 or older to receive their full retirement benefits from Social Security.

Some people choose to retire when they first become eligible for Medicare, particularly if their job offers limited or high-deductible health insurance.

Gaining full Medicare coverage can look quite appealing when you're facing a $6,000-plus deductible at work every year, or must pay over $1,000 in premiums to get the coverage you feel works for your (and your family's) healthcare needs.

A recent survey found Baby Boomers' biggest retirement-related concern is their medical expenses, behind the catch-all fear of not having enough money in retirement.

Recent trends show nearly a quarter (23%) of Baby Boomers are delaying their retirements to hold onto existing healthcare benefits.

Healthcare costs have grown at a rate far beyond that of other common expenses. Our health tends to decline as we age, so it's understandable that healthcare costs remain a significant concern for many pre-retirees.

The National Council on Aging recently discovered that 56% of people over 60 are worried about healthcare costs exceeding their retirement savings.

Healthcare can become such a massive expense as we age that many people feel they have no choice but to work until they turn 65 and become eligible for Medicare.

However, if you put together the right plan, you may be able to qualify for an advanced premium tax credit (APTC), which can help you retire before you turn 65.

In all likelihood, an **early retiree in the U.S.** will buy ACA (Obamacare) insurance on the Federal or State **Insurance Marketplace.**

If you're in this position, you're probably wondering: will I qualify for a subsidy?

Let's look at how the ACA — or the Affordable Care Act — works, subsidies and all, so you can gain a clearer picture of your preretirement options.

ACA Basics

The ACA's full name is the "Patient Protection and Affordable Care Act." The "patient protections" of the Act include:

- No limits for pre-existing conditions
- No gender-based premiums
- No lifetime maximums
- Improved access to coverage
- Standardized provisions:
    - Preventive care is 100% covered
    - Children can remain on their parents' plans until age 26
- Established Essential Health Benefits required in every policy

The Essential Health Benefits covered under the ACA include:

- Prescription drugs
- Preventive services
- Outpatient care
- Lab tests
- Pediatric services
- Trips to the emergency room
- Treatment in the hospital
- Pre- and post-natal care
- Mental health and substance use disorder services
- Services and devices to aid recovery if:
    - you are injured;
    - you have a disability; or
    - you have certain chronic conditions

Plans are standardized and categorized by levels of coverage:

- Bronze
- Silver
- Gold
- Platinum

These levels don't necessarily indicate the quality of care you'll get, but rather, what percentage of the total cost you can expect to pay for medical services.

This is sometimes referred to as a plan's "actuarial value," or AV.

For example, a plan with an actuarial value of 80% would require you to pay for an average of 20% of the cost of all your covered benefits.

Bronze plans, on average, will cover 60% of the annual cost of medical care. The projected AV increases to 70%, 80%, and 90% for Silver, Gold, and Platinum plans, respectively. As the AV grows, plan premiums (or monthly payments) tend to increase accordingly.

Category	Actuarial Value	Plan Pays	You Pay	Premiums	Deductibles/ Co-Pays/etc
Bronze	~60%	60%	40%	Lowest	Highest
Silver	~70%	70%	30%	Moderate	Higher
Gold	~80%	80%	20%	Higher	Moderate
Platinum	~90%	90%	10%	Highest	Lowest

Source Acesshealthct.gov

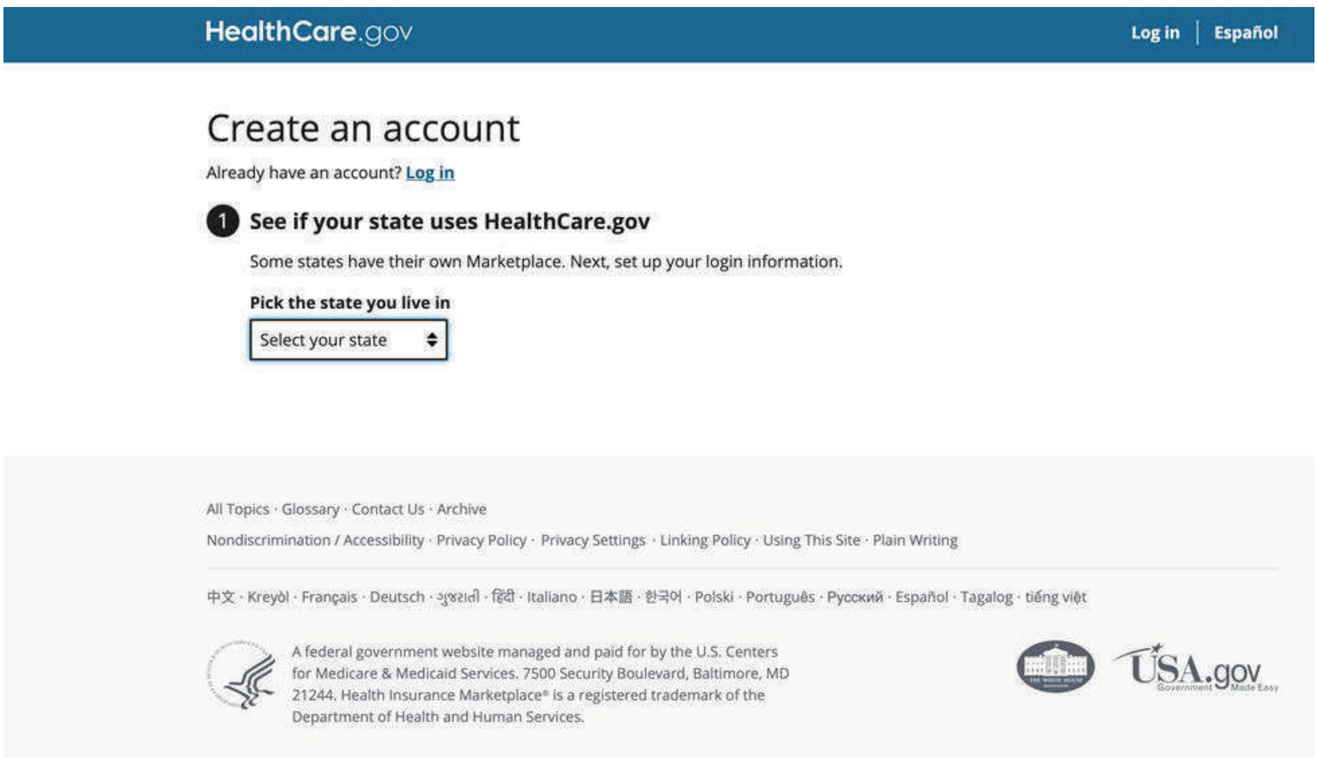
When I hear people and politicians discuss the ACA's plans, I often feel frustrated by the frequent mischaracterizations of the ACA, which rarely seems to get the praise it deserves for extending and improving coverage for millions of Americans.

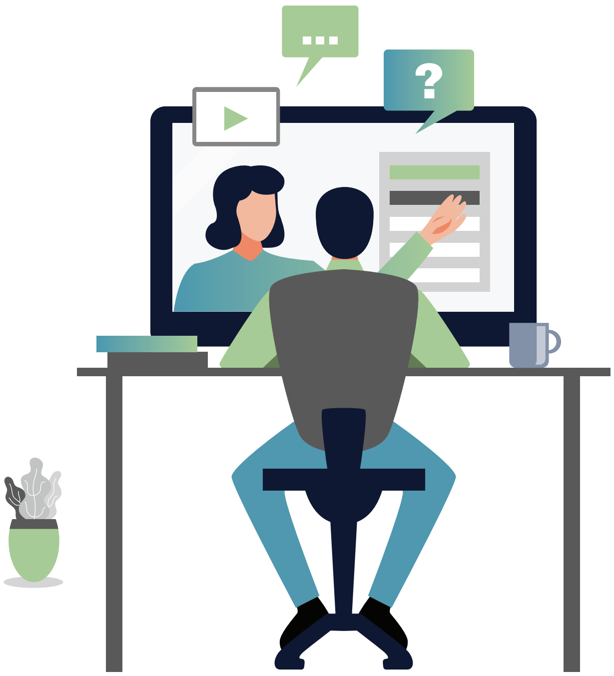
Health Insurance Exchanges (HIX)

"HIX" stands for "Health Insurance Exchange." It's a general term for all ACA-accredited insurance marketplaces that provide access to subsidized healthcare coverage for residents of a given state. It also includes the federal government's exchange, which can be accessed at healthcare.gov.

Coverage options and premiums can vary from state to state. Many states use the national HIX. Some states have their own distinct HIX websites. I typically recommend starting your research at healthcare.gov, which allows you to select a state so you can be directed to the correct state-specific HIX (if it exists).

If you've never used healthcare.gov before, you may be prompted to create an account:





Every policy has a distinct approach to covering its mandated percent of healthcare.

For example, some Silver plans might have lower premiums and higher deductibles, while other Silver plans offer lower copayments but come with higher out-of-pocket maximums.

It's important to weigh these variables against your (and your family's) unique medical needs, both now and into the future.

Many Bronze plans only cover specialist visits after you reach your deductible. Some of these plans come with deductibles of $6,000 or more. If you expect to see specialists regularly, you might want to consider a Silver (or higher) plan, to ensure your visits will be covered by your co-payment from day one.

Advanced Premium Tax Credits

Your family may qualify for Advanced Premium Tax Credits (APTC) based on your **income.**

APTCs are subsidies that can cover nearly all, or a portion of, your premium. These credits are typically capped at income levels four times (or 400%) the federal poverty level. If your income goes past that 400% cap, you could receive an unwelcome extra-large tax bill.

Calculating APTCs (aka Subsidies)

You're expected to contribute a minimum percentage of your income for a **Silver plan**. Premiums are calculated off of 3 numbers:

+ Add back certain income

- Non-taxable Social Security benefits[4] (Line 5a minus Line 5b on Form 1040)
- Tax-exempt interest (Line 2a on Form 1040)
- Foreign earned income & housing expenses for Americans living abroad (Form 2555)

For Medicaid eligibility
− Exclude from income

- Certain American Indian and Alaska Native income derived from distributions, payments, ownership interests, real property usage rights, and student financial assistance

Modified Adjusted Gross Income (MAGI) =

Adjusted Gross Income (AGI)

Line 8b on Form 1040

See page 2 for clarifications related to common benefits or sources of assistance provided during the COVID-19 pandemic

Include:

- Wages, salaries, tips, etc.
- Taxable interest
- Taxable amount of pension, annuity or IRA distributions and Social Security benefits[4]
- Business income, farm income, capital gain, other gains (or loss)
- Unemployment compensation
- Ordinary dividends
- Alimony received under settlements executed before 2019
- Rental real estate, royalties, partnerships, S corporations, trusts, etc.
- Taxable refunds, credits, or offsets of state and local income taxes
- Other income

Deduct:

- Certain self-employed expenses[5]
- Student loan interest deduction
- IRA deduction (traditional IRAs)
- Moving expenses for active members of the military
- Penalty on early withdrawal of savings
- Health savings account deduction
- Alimony paid under settlements executed before 2019
- Certain business expenses of reservists, performing artists, and fee-basis government officials
- Educator expenses

Note: Check the IRS website for detailed requirements for the income and deduction categories above. Do not include Veterans' disability payments, workers' compensation or child support received. Pre-tax contributions, such as those for child care, commuting, employer-sponsored health insurance, flexible spending accounts and retirement plans such as 401(k) and 403(b), are not included in AGI but are not listed above because they are already subtracted out of W-2 wages and salaries.

Source healthcare.gov

1. The price of a standard Silver plan
2. Household income (specifically your MAGI)
3. Household size

Your household is defined as including:

- yourself
- your spouse
- any children who live with you
- our unmarried partner:
    - if he or she is a dependent for tax purposes; and/or
    - if he or she is the parent of your child(ren).
- anyone included on your tax return as a dependent (even if they don't live with you)
- anyone else under 21 who you take care of and who lives with you

How are dependents defined?

Dependents are typically the children or spouse you claim as a dependent on your taxes. A dependent cannot be claimed as a dependent by more than one taxpayer.

The Federal Poverty Line (FPL) by household size

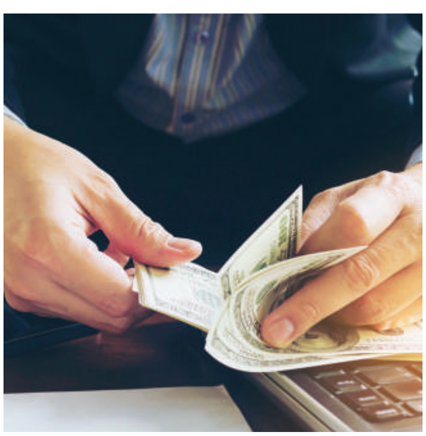
Dependents are typically the children or spouse you claim as a dependent on your taxes. A dependent cannot be claimed as a dependent by more than one taxpayer.

Household/%FPL	100%	138%	150%	200%	250%	300%
1	$12,880.00	$17,774.40	$19,320.00	**$25,760.00**	$32,200.00	**$51,520.00**
2	$24,039.60	$24,039.60	$26,130.00	**$34,840.00**	$43,550.00	**$69,680.00**
3	$30,304.80	$30,304.80	$32,940.00	$43,920.00	$54,900.00	$87,840.00
4	$36,570.00	$36,570.00	$39,750.00	$53,000.00	$66,250.00	$106,000.00
5	$42,835.20	$42,835.20	$46,560.00	$62,080.00	$77,600.00	$124,160.00
6	$49,100.40	$49,100.40	$53,370.00	$71,160.00	$88,950.00	$142,320.00
7	$55,365.60	$55,365.60	$60,180.00	$80,240.00	$100,300.00	$160,480.00
8	$61,630.80	$61,630.80	$66,990.00	$89,320.00	$111,650.00	$178,640.00

Source healthcare.gov

Families earning between 100% to 400% of the FPL qualify for reduced-cost coverage.

You're expected to pay a predetermined percentage of your income for any Standard Silver Plan, based on where your income falls on the 100% to 400% FPL scale.



Income Range (% of FPL)	Range of Applicable Percentage for 2021 under Prior Law
100%-133%	2.07%
133%-150%	3.10%-4.14%
150%-200%	4.14%-6.52%
200%-250%	6.53%-8.33%
250%-300%	8.33%-9.83%
300%-400%	9.83%
400% and higher	N/A

Source healthcare.gov

Here's one example...

A Silver Standard Plan costs $1,500/month, or $18,000 a year.

Let's say you have two people in your household, and your household income is $32,000. That places you at 250% of the FPL.

Based on this income level, you're expected to contribute a minimum of 6.53% of your income, which in this case works out to roughly $174 per month, or $2,090 per year.

Your APTCs would cover the remainder of your Silver Standard plan premium, which can be calculated as: the cost of your Silver Plan premium times your expected contribution percentage. Here, the numbers work out to $1,500 (the monthly premium) - ($1,500 times .0653 (your contribution as a percentage of your income)). The APTC therefore covers $1,326 of your $1,500 monthly premium.

Keep in mind that you can use your APTC on any plan tier, from Bronze to Platinum. However, higher tier plans typically require higher monthly premiums, so you'll most likely wind up paying more out-of-pocket to make up the difference between your APTC and the total monthly premium.

Cost Share Reduction (CSR)

There is a second way to save money on health insurance exchange plans.

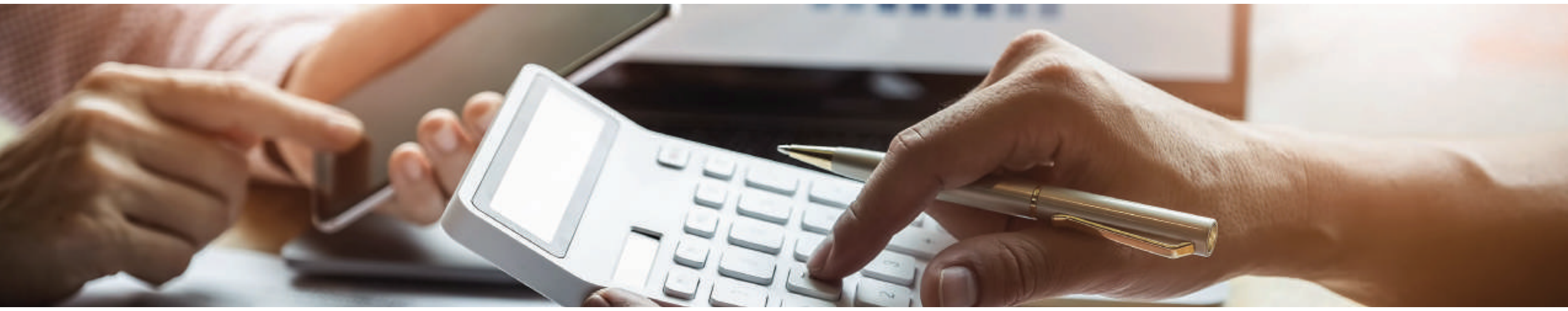
Cost Share Reductions, or CSRs, reduce the out-of pocket costs consumers pay for things such as deductibles, copayments and coinsurance. However, CSRs are somewhat opaque and difficult to interpret. Despite being used by over five million people, there's still quite a bit of confusion surrounding CSRs.

Hypothetical Bronze Plan = $1,200/month-$1,326 = $0 premium plan and would

result in unused tax credits that could result in a tax refund.

Hypothetical Gold Plan - $2,000/month - $1,326 = $674 monthly premium

Income	% FPL	Minimum Required Contribution	Annual Health Care Cost for Silver Plan	APTC	Monthly APTC
$32k	250%	6.53%	$2,090	$15,910	$1,326



CSRs are only available on Silver plans.
Let's see how CSR-supported silver plans compare other plan levels.

Category	Actuarial Value	Plan Pays	You Pay	Premiums	Deductibles/ Co-Pays/etc	Income Range
Bronze	~60%	60%	40%	Lowest	Highest	NA
Silver	~70%	70%	30%	Moderate	Higher	NA
CSR 73 Silver	~73%	73%	27%	Moderate	High	200%-250%
Gold	~80%	80%	20%	Higher	Moderate	NA
CSR 87 Silver	~87%	87%	13%	Minimal	Low	150%-200%
Platinum	~90%	90%	10%	Highest	Very Low	NA
CSR 94 Silver	~94%	94%	6%	$0	Lowest	100%-150%

Source accesshealthct.gov

You can see a chart calculating different levels of income (and FPL tiers) for individuals, couples, and families of four below. This table focuses on the original APTC subsidy rates. In the next section, on the American Rescue Plan, you can see the difference between the original rates and 2022's ARP-subsidized rates:

Household Income (except AK & HI)*			Premium Cap (max % of income for benchmark plan)	
% FPL	**Single Adult**	**Family of Two**	**Original ACA (Silver base)**	**Am. Rescue Plan (Silver base)**
<100%	<$12,760	<$26,200	n/a***	n/a***
100-133%**	$16,971	$34,846	2.70%***	0%
133-150%	$19,140	$39,300	3.10-4.14%	0%
150-200%	$25,520	$52,400	4.14-6.52%	0-2%
200-250%	$31,900	$65,400	6.52-8.33%	2-4%
250-300%	$38,280	$78,600	8.33-9.83%	4-6%
300-350%	$44,660	$91,700	9.83%	6-7.25%
300-400%	$51,040	$104,800	9.83%	7.25-8.5%
>400%	>$51,040	>$104,800	n/a	8.5%

*for Hawaii, increase amounts by 15%; for Alaska, increase amounts by 25%
**Medicaid expansion technically cuts off at 133% FPL
but in practice extends to 138% FPL via a 5% disregard
***In states which haven't expanded Medicaid only;
in expansion states, those in this bracket would be enrolled in Medicaid instead.

I can't emphasize this enough: **If you sign up for an ACA exchange plan and your household earns under 200% the FPL, you should absolutely choose a Silver plan. With CSRs, you'll effectively be getting Platinum plan coverage.**

You can quibble over whether CSR 87 should be considered "weak Platinum" or "strong Gold." Regardless, either one will offer your household a terrific and comprehensive plan for virtually no monthly out-of-pocket premium costs. If your household earns under 150% of the FPL you'll literally have zero monthly premiums. This was true before the American Rescue Plan became law.

While the PTCs help pay for the cost of your health insurance plans, CSRs reduce your out-of-pocket exposure if you're eligible to receive them.

Below 100% of the FPL (or 133%-138% in some states), extrahelp programs for healthcare are (generally) available.

If your income exceeds 400% of the FPL, you typically won't qualify for subsidies.

FPL numbers change each year. Click the link in the previous sentence for current FPL guidelines, no matter when you read this.

The American Rescue Plan

In March 2021, the U.S. government passed the American Rescue Plan Act (ARP) to make health insurance coverage more affordable and accessible for many Americans during the COVID-19 pandemic.

The Act virtually eliminates or vastly reduces monthly premiums for many households with low and moderate incomes who've enrolled through health insurance exchanges.

The ARP also offers new financial assistance for people with somewhat higher incomes who would otherwise be forced to pay high out-of-pocket premiums. The ARP expands its coverage to households with incomes above 400% of the FPL. The "subsidy cliff" that cut off all subsidies if you went even one dollar over 400% of the FPL was also eliminated in the ARP.

The difference between the original ACA subsidy rates and the ARP-enhanced subsidies can be seen below:

Under the ARP, no one is obligated to pay more than 8.5% of their income for a benchmark plan, which is typically defined as the second-lowest-cost Silver plan. The ARP also increased APTC funding and raised available tax credit amounts for all plan levels.

Table1. Premium Tax Credit Applicable Percentages under the ARP and Prior Law

Income Range (% of FPL)	Range of Applicable Percentages for 2021 under Prior Law	Range of Applicable Percentages for 2021 and 2022 under the ARP
100% -133%	2.07%	0%
133%-150%	3.10%-4.14%	0%
150%-200%	4.14%-6.52%	0%-2%
200%-250%	6.52%-8.33%	2.0%-4.0%
250%-300%	8.33%-9.83	4.0%-6.0%
300%-400%	9.83%	6%-8.5%
400% and higher	N/A	8.5%

The applicable percentage is the share of a consumer's income they must generally pay towards a benchmark (second-lowest-cost silver) plan with the PTC. Within the ranges shown the applicable percentage increases linearly.

Source hethcare.gov

Unfortunately, the ARP's expansion of coverage is only funded through 2022. Many in Congress, and millions of current beneficiaries, would love to see this expansion extended indefinitely. However, the ARP comes with a cost of over $34 billion for the two years in which it's active, making its future somewhat unclear.

It would be prudent to assume you'll need to stay under 400% of the FPL going forward to continue receiving APTCs. Carefully managing your income can also net you a bigger tax credit to cover more of your insurance premiums.

The CARES Act

The Coronavirus Aid Relief and Economic Security (CARES) Act became law on March 27, 2020. The CARES Act provided fast direct economic assistance to American workers, families, small businesses, and specific industries.

Some key components of the CARES Act were:

- Stimulus payments of $1,200 per adult individuals
- Stimulus payments of $500 per dependent child
- Individuals collecting unemployment received an additional $600 per week

Stimulus payments were also excluded from monthly income calculations for Medicaid and/or CHIP eligibility, and were also excluded from 2020 annual income calculations used to determine APTC and/or cost-sharing reduction (CSR) eligibility.

The additional unemployment benefit was excluded from monthly income calculations for Medicaid and/or CHIP eligibility, but was included in 2020 annual income calculations in determining APTC and/or CSR eligibility.

ACA Income Calculation

Total combined household income includes, but is not limited to:

- wages and salaries
- pensions
- unemployment compensation
- disability payments
- alimony payments received
- rental income
- any personal business, investment, or other kinds of income

MAGI (Modified Adjusted Gross Income)

Your MAGI is the estimated annual income you'll use in your marketplace application.

We use this amount to determine your eligibility for APTCs and CSRs. You can use the following list to calculate your MAGI.

It includes various types of income to add in, and amounts and/or qualified expenses you can subtract or ignore to determine your MAGI. Your MAGI should be used wherever you see the word "annual income" on your application. Here are some key numbers to use:

Income you must include in MAGI calculations

- Wages, salaries, overtime and tips (earned income)
- Unemployment compensation
- Alimony payments received
    - Amounts from divorce orders after January 1, 2019 will not be added
    - Child support payments you receive are not part of your MAGI
- Taxable interest
- Taxable pension, annuity or IRA distributions
- Social Security benefits (taxable and non-taxable portions)
- Business income (also includes the following):
    - farm income
    - capital gains or other gains (or losses)
- Ordinary dividends
- Real estate rental income
- Royalties
- Partnership, S corporation, trust income, etc.
- Taxable refunds, credits, or offsets of state and local income taxes
- Foreign earned income and housing expenses for citizens living abroad
    - This is calculated on Form 2555
- Tax-exempt interest (interest on tax-free bonds, i.e. municipal bonds)
    - This is calculated in Line 8b on Form 1040
- Other income, including:
    - canceled debts
    - court awards
    - jury duty pay
    - gambling income
    - prize or competition awards

Expenses and/or costs to subtract in MAGI calculations

Certain self-employed expenses (Deductible part of selfemployment tax; SEP, SIMPLE, and qualified plans; health insurance deduction)

- Alimony paid
  - Amounts from divorce orders after January 1, 2019 cannot be subtracted
  - Child support payments you make are not subtracted
- Student loan interest deductions
- Tuition and fees
- Educator expenses (school supplies purchased by qualified teachers)
- IRA deductions
- Qualified moving expenses (if you move for work-related reasons)
- Penalties for early withdrawals from retirement or savings accounts
- Health savings account deductions
- Domestic production activity deductions
- Certain business expenses for:
  - military reservists
  - performing artists
  - fee-basis government officials

Keep in mind that some of these deductions have dollar-amount limits and can only be subtracted up to these limits.

You can see a complete list of income included in MAGI calculations on healthcare.gov.

How much money can you save?

Your premium savings will depend on your annual household income, and on the state you live in.

For example, I have several clients in Connecticut. These examples come from real numbers I found on the state's insurance exchange marketplace website:

The average household will save $116.05 per month, or $1,392.57 per year.

Households with annual incomes exceeding 400% of the FPL — which works out to $51,040 for a one-person household (check the table above for FPL rates for households of up to eight people) — are eligible for financial help through Access Health CT, and will see an average monthly savings of over $500, or $6,200 a year.

One-person households with annual incomes of up to 150% of the FPL (or $19,140) can buy Silver plans with out-of-pocket monthly premium costs of nearly zero cost, with vastly reduced deductibles, copays, and coinsurance rates.

Individual taxpayers receiving Unemployment Insurance (UI) benefits at any time in 2021 are automatically considered to have annual incomes at 133% of the FPL, which is set at $12,880. These taxpayers are eligible for a nearly zero-cost premium benchmark Silver plan with comprehensive cost sharing subsidies in 2022.

The number of enrolled households with nearly zero-cost premium plans will more than double to 33,000 households in Connecticut in 2022.

Examples of Monthly Benefits

APTCs are calculated on a sliding scale. Calculations typically use the benchmark Silver plan, subtracting the percentage of income you're expected to contribute. The difference between the benchmark plan's cost and your contribution percentage will be made up by APTC subsidies, which can then be applied towards any available plan at any level.

The premium tax credit (PTC) will pay part of your monthly premiums.

Here are some examples of the premium tax credit for 2021 in my hometown of Glastonbury, Connecticut:

- Single male, age 60, with a $40,000 income:
    - eligible for a $963 monthly credit
    - premium costs for a Silver plan would be $80 per month
- Single male, age 60, with $25,000 income:
    - eligible for $1,109 monthly credit
    - the cheapest Silver plan has premium of $9 per month
    - unused PTC reduces his tax bill further
    - he will be eligible for CSR, reducing his deductible to $650
- A married couple, both age 60, with $60,000 household income:
    - eligible for a $1,935 monthly PTC
    - premium costs for a Silver plan would be $99 per month

- A married couple, both age 60, with $40,000 household income:
    - eligible for a $2,185 monthly PTC
    - premium for a Silver plan would be $99 per month
    - unused PTC reduces their tax bill further
    - They will be eligible for CSR, reducing their family deductible to $1,300

Same-sex couples are eligible for PTCs (at least in the state of Connecticut) if they're legally married and file a joint tax return.

In our example of the 60-year-old couple making $40,000 a year, the government subsidizes the first $2,185 of their health insurance premiums every month.

This subsidy amount would fully cover the premium cost ofseveral Bronze plans, and would also help the couple get more coverage if they're willing to pay a (comparatively) low monthly premium. These outcomes make Silver plans simply too good to pass up for our $40,000-earning couple.

However, our $60,000-earning couple wouldn't qualify for CSRs. The most expensive Gold-tier plan on Connecticut's marketplace would cost this couple $833 a month in premiums after their PTC, but they might still be eligible for zero-cost premiums under Bronze-tier plans

You can check your own rates and PTC estimates on healthcare.gov.

Planning opportunities

If you understand the system, you'll be able to optimize your income and investments to receive the maximum possible benefits. Knowledge is power!

With the right choices, you can minimize out-of-pocket expenses while maximizing the coverage you'll receive under an ACAapproved plan.

Your goal, in this case, should be to accumulate assets that will be easily accessible (liquid) without impacting your MAGI. The ACA is not Medicaid. There are no questions about your investments!

I'm personally watching two levels: 200% and 400% of the FPL. CSRs vanish for households earning more than 200% of the FPL, and the "subsidy cliff" appears at 400% of the FPL, which is why we focus on these particular income levels.

In 2022, those levels (for households of one person if single, or two if married) were:

Single:	Married:
200% = $25,760 400% = $51,520	200% = $34,840 400% = $69,680

Planning your Income to Maximize PTCs

Here's how you can minimize your MAGI to maximize available premium tax credits, which may allow you to retire comfortably before 65:

Consider delaying your application for Social Security retirement benefits or pensions until at least one year after you become eligible for Medicare. Receiving $2,100 a month in Social Security income might mean losing an $1,800 monthly tax credit!

Consider not taking withdrawals from your Traditional IRAs or 401(k)s. These distributions will count as ordinary income. Instead, take distributions from your Roth IRAs.

Roth IRA distributions don't count as income for PTC purposes if you're at least 59.5 years old and your Roth IRA account has been open for at least five years. You can also access the principal — but not the earnings — in your Roth IRAs before age 59.5.

If you're a bit far from retirement, consider building up your Roth IRA balances with contributions, conversions, or certain backdoor strategies.

Build up a "cash bucket" to pay for living expenses to bridge the "gap" years between your planned retirement age and age 65. For investments with significant capital gains, decide how much you want to sell at least one year before signing up for an ACA healthcare plan. Try to avoid having those sales count as MAGI in the year(s) you want to receive PTCs.

Consider taking out a securitized loan against your investments, to delay selling any investments with unrealized gains.

Sell funds or bonds with low taxable gains held in taxable accounts in the years you want to maximize your PTC, or harvest tax losses to offset some of your gains.

Avoid creating taxable gains when changing the mix of your investment portfolio. If you want to rebalance investments held in IRAs or tax-deferred investments, be mindful of any unrealized gains you may have in these accounts, or any unrealized gains held in non-retirement accounts. In some cases, it may simply be better to hold onto assets that have appreciated substantially until

you can minimize or eliminate any tax penalties they would occur once sold.

Pay for medical expenses out of pocket, or reimburse yourself from a Health Savings Account (HSA) for qualified medical expenses. HSA withdrawals are considered tax-free distributions.

If you're close to the 400% FPL threshold, choose an HSA plan to reduce your MAGI by contributing up to a maximum of $8,200 ($3,600 per person, or $7,200 for a married couple or a household of two, plus $1,000 catch up — the "catch up" amount is an extra $1,000 per year you're allowed to contribute to an HSA from age 55 until you become eligible for Medicare).

To reduce your MAGI if you still receive "earned" income when you're partially or fully retired, consider opening a traditional IRA or an available qualified 401(k) plan. Pensions, Social Security payments, real estate income, and certain other types of earnings don't qualify as earned income for tax purposes when you continue contributing to these types of retirement accounts.

Use a Spousal IRA if only one spouse in the household is working.

Selling a primary residence can create capital gains of up to $250,000 if single, or $500,000 if married, that won't count towards MAGI for ACA purposes.

The Bottom Line

- What are the biggest obstacles in your MAGI calculations?
    - Income that can't be modified:
        - dividends
        - interest
        - trust income
        - pension income after a certain age
- Calculate your annual living expenses
- How low can your income go?
    - Pick a target in the range of 200% or 400% of the FPL.
- Bring your income up to your target by realizing capital gains, 401k withdrawals or ordinary income.
- Take any remaining "income" from assets that won't impact your MAGI.
- Multiply the income you'll need by the number of years left till you turn 65.

Putting Your Plan Into Action

Here's an example for a married couple hoping to retire at age 58:

- They receive a $20,000 annual pension at age 55
    - Social Security is deferred to the Full Retirement Age
- They need $75,000 in annual income
    - 200% of the FPL is $34,840
- They receive $14,840 in capital gains, 401k withdrawals, or ordinary income to bring their income up to 200% of the FPL
- They receive $35,160 in MAGI-friendly assets per year
- They'll need $246,120 in MAGI-friendly assets between ages 58 and 65

At 200% of the FPL, their monthly premium with CSR for a Silver plan with a $1,300 deductible will be $17 a month, for a sevenyear total out-of-pocket premium cost of $1,428.

At this income level, their maximum-out-of pocket medical bills would be $2,000 per year! For just about anyone, this represents amazing coverage with little to no risk.

Let's say our hypothetical couple wants to stay under the 400% FPL level:

- They receive a $20,000 annual pension at age 55
    - Social Security is deferred to the Full Retirement Age
- They need $75,000 in annual income
    - 400% of the FPL is $69,680
- They can take up to $49,680 in capital gains, 401k withdrawals, or ordinary income.
- They receive $5,320 from MAGI-friendly assets per year
- They'll need $37,240 in MAGI-friendly assets between ages 58 and 65

At 400% of the FPL, their monthly premium for a Silver plan with an $8,600 deductible would be $228 a month, for a seven-year total out-of-pocket premium cost of $19,152.

Over 400% of the FPL (without a subsidy), their monthly premium for a Silver plan with an $8,600 deductible would be $1,910 a month, for a seven-year total out-of-pocket premium cost of $160,440.

You can see the clear difference between staying under certain FPL percentages and exceeding the FPL. In many locations, the difference could be worth a small house!

Make a Plan

Financial planning is about much more than investing. It's a matter of understanding your financial health as it impacts all aspects of your life, including your healthcare.

With careful planning, you can save over $100,000 on your healthcare before you retire.

Frequently, where your savings are held can be the most crucial factor in whether or not a particular financial plan will make sense for your needs and your budget.

If your money isn't readily available, or its availability would negatively impact your potential subsidies, it might be worth investigating other options.

As you plan your future, it's essential to consider how healthcare costs might impact your retirement savings and lifestyle choices.

We offer an individually-tailored approach to help you understand the complexities of ACA insurance in your pre-retirement-age years. With careful planning, you can keep the right assets in their ideal savings and investment vehicles to maximize the best healthcare options and subsidies available to you in the years to come. To learn more, contact us today!

Contact Us

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This information is not intended to be a substitute for specific tax individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.

Any examples are hypothetical and are not representative of any specific situation. Your results may vary.