Ep109: Special Re-Broadcast of Hartford Funds' Human-Centric Investing Podcast – How to Help Clients Age with Dignity Featuring Patti Brennan

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PATTI BRENNAN: Hi, there. Welcome to "The Patti Brennan Show." Whether you have $20 or 20 million, this show was for those of you who want to protect, grow, and use your assets to live your very best lives.

This is another one of our "Ask Patti Brennan" episodes, those questions that we often get from people. Those frequently asked and even those rarely asked questions, RAQs. Today, we're going to be talking about important milestones.

The theme of today's podcast came about because we often get calls from clients. It usually starts out with, "I am turning age 50 and I'm wondering…I'm feeling there's something that I should be doing, or this is happening this year. I'm wondering what I should do."

Intuitively, they know that they should be doing something, but they aren't sure if they know what it is. That's the purpose of this podcast, today. I want to go through the important milestones throughout a person's life.

Let's start with birth. Let me tell you guys, those babies are not calling us saying, "I got born. What do I need to consider?" That would be interesting. When a child is born, all of a sudden new options become available, Uniform Gifts to Minors Act accounts, 529s, things of that nature as you think forward in terms of what you want for that child.

After that, age 13 and age 17, both of those milestones are years when the child is no longer eligible for a childcare and a dependent care credit. Age 18 is an important age, because that's the year when most children are considered adults. They reached the age of majority.

That triggers a whole host of events, not just the fact that they can vote which is a wonderful thing, but in addition to that, they are adults, therefore, HIPAA steps in. I've told you stories of my own personal family, my own son having a traumatic brain injury.

Remember that those kids are adults, they need powers of attorney, both health care as well as financial powers of attorney, in the event that something were to happen to them. Most states recognize age 18 as the age of maturity, although there are few that put it off until age 21.

At age 24, a child who was a full-time student is no longer subject to the Kiddie tax. The Kiddie tax is important. That was brought about many years ago, because a lot of people steered money and income to their children at their tax brackets.

Therefore, this new law, it's called the Kiddie tax, was born. At age 24, that no longer applies. They will be subject to their own tax bracket, which in many cases is a lot lower than the parents.

At age 26 the kids come off the health insurance. It's not to say that they have to stay on your health insurance, it's that they can stay on your health insurance until age 26. After that, they've got to get on their own insurance.

Let's fast forward to age 50. That is when you are eligible to make catch-up contributions in your retirement plans, your 401(k)s, your IRAs. At age 55, that is when you can make the catch-up contribution to your HSA.

Again, a great tool for those of you who have a high deductible medical plan, stash money tax-free into that HSA. Believe me when I tell you, you will be happy that you did. Take advantage of the catch-up contribution, stash as much as you can into that HSA account.

In addition, this is important, so listen up. For those of you who are working and might have a 401(k), at age 55, this is the year that in the event that you are downsized at age 55 or beyond, if you really need money, now remember, I hope you don't, but if you need to take a distribution from that 401(k), there's no 10 percent penalty.

We all know age 59 is the year when anybody can pull money out of a retirement plan without that 10 percent penalty. This is a little loophole in 401(k)s and corporate retirement plans that I want you to be aware of.

Make sure that you remember that if you are downsized at age 55 or beyond - if there is a remote possibility that you may need to pull money from it. Don't roll it into an IRA, because once you do, you've lost that ability.

Age 60, that is when you are eligible to collect Social Security as a widow or a widower. I'm going to say to all of you, I wouldn't necessarily take it even though you might be eligible, because you will get a reduced benefit.

Age 60, if you need the cash flow, it is there for you. At age 62, that is when you are also eligible to claim your own Social Security. Again, please run the numbers. We have met with many people after the fact, who we have met in their early seventies. They say, "Gee, I wish I hadn't." There is a 35 percent penalty by doing so.

While you might qualify, think long and hard before you take it because the mulligans are no longer available. Age 64, nine months, is when you can begin to apply for Medicare. It is important that you apply by age 65 for at least part A. You may continue to be working and be on your employer's plan and that is fine, but you have to sign up for part A.

Otherwise, there is going to be a penalty for the rest of your life. That is an important landmark. Do not let it pass you by. From age 66 to age 70, those are the years where you might be reaching full retirement age, which is referred to as FRA. FRA is when you are eligible to get 100 percent of your Social Security benefit.

Once again, this does not necessarily mean that I want you to take it. It is important to run the numbers. There are many articles out there that say, "Oh, you want to wait, wait, wait until you're 70 because that's when you get the most from Social Security." That may be true, but it may not be the best course of action for you.

You want to run the numbers, to make sure that waiting is the right decision for you. Let me give you an example. For example, if you decide to wait, and instead of getting that $2,000 a month from Social Security, you're taking it out of an IRA. I am not so sure that's the right decision for you.

To get the same $2,000, you have to take out more from the IRA. Again, it is a different decision for each person. For those people who are born in 1960 or later, age 67 is your full retirement age.

Let's go to the age of 70. You are 70 years old, that is the milestone that you're going to hit this year. What happens then? There is a neat opportunity that a lot of people are not aware of – when you turn 70 and a half, you are eligible to do something called a qualified charitable deduction.

All that means is that you can take money out of your retirement plan and not pay taxes on it. You might say, "Well, Patti, I usually take money out and then send it to the church or the charity." That's perfectly fine. If you do it that way, then you have to put it on Schedule A as an itemized deduction.

There was a law that was passed in 2017. Even though most couples have a standard deduction of $27,300, that charitable deduction on Schedule A isn't enough to be able to itemize. It's wonderful that you made that charitable contribution, but you're not going to get any tax benefit from it. Instead, you might have a retirement plan.

If you are 70 and a half, take the money out of the retirement plan. Guess what? You do not have to pay taxes on it. The charity got the money and you still get your standard deduction. That's leverage. That is powerful.

Even though required minimum distributions have been pushed off to age 72, keep 70 and a half in the back of your mind as still an opportunity to do something worthwhile. At age 72, you will take required minimum distributions.

This year in 2022, the IRS has changed the tables. We at Key Financial have had to reorient all clients' portfolios and their retirement plans to come up to speed with these new IRS tables. That is going to impact everybody who was 72 years and beyond. It is a whole new calculation.

In addition to that as we go forward, beyond age 72, this is something that needs to be done each and every year. I am going to say to all of you, perhaps the most important milestone at the beginning of each year is to review last year. Figure out, "Gee, what worked? What didn't work, and what are we going to do about it?"

Then, at the end of the year, let's all be grateful. Let's be grateful that we live in this wonderful country. That we have these wonderful milestones and opportunities to make a difference in other people's lives.

Thank you so much for tuning into today's podcast. Remember, that if you'd like this list of milestones, go to our website at keyfinancialinc.com. Go to the podcast tab and you will see this podcast there. Click on it. You can print out these milestones and reference them anytime you want.

Thanks again for tuning in, I hope you have a great day! I'm Patti Brennan, Key Financial Wealth Management With Wisdom & Care.