# The Planning Quarterly

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# Financing College Education in 2020

Cynthia Aiken, MBA, CFP™

The pandemic has impacted our lives in countless ways, including the world of college education. With virtual and hybrid learning in place and strict limits on classrooms or other gatherings, should high school students pursue a college career? Yes, the key reasons to get a college education are still valid: College graduates have higher starting salaries and higher lifetime earnings than peers with a high school education. Furthermore, unemployment rates for college graduates are consistently well below those for high school grads. In fact, the average annual lifetime return on investment in a college education is estimated at 14% (Federal Reserve Bank of New York, June 2019).

A college education is an investment – an expensive one. Tuition has risen roughly 6.3% annually over the past 36 years, far higher than inflation. Why? Colleges are spending more to attract the best students, hiring more faculty and staff, and improving and expanding their campuses. At the same time, they have received less financial support from state or federal grants. The 2020-2021 average tuition, fees, and room and board are $21,950 at public colleges and $49,870 at private colleges.

In the current Covid-19 environment of virtual learning, college costs are still expected to rise. Some schools may freeze tuition in the very short term but will increase it in the longer term due to impacts of the pandemic. Enrollment is forecast to drop 15%, resulting in lower revenue. Non-tuition sources of revenue such as government aid, fundraising, and sports, which traditionally account for 70% of a college's revenue, will likely drop. Fewer international students, who typically pay full tuition, will enroll. Many colleges will have no choice but to raise the costs to attend.

While annual college costs for a four-year public university have increased 14% over the past ten years, total financial aid has decreased 12% over the same time frame. (The College Board, 2019 Trends in Student Aid). In today's pandemic environment, 64% of current and incoming families say that Covid-19 has increased their need for financial aid, and 90% of colleges are expecting more appeals for financial aid due to Covid-19 related stresses.

Despite the increased need for financial aid, the reality regarding financial aid grants and scholarships is:

- Need based grants – 57% of families receive an average of $5,732 – covers 12% of private or public-school expenses.
- Merit based scholarships – 65% of families receive an average of $7,562 – covers 24% private or 15% public expenses.
- 0.3% of college students receive a free ride – grants and scholarships to cover costs (that is, 3 students out of 1,000).
- 2% of high school athletes receive scholarships to play college sports, with an average scholarship of $5,000 to $8,000.

How is financial aid determined? The US Department of Education calculates the Expected Family Contribution (EFC), which is used to determine financial aid eligibility. The EFC calculation is based upon family information provided by incoming student families on the Free Application for Federal Student Aid (FAFSA) form. The application is available October 1st of the year before the student begins classes; it uses income and tax information from the previous tax year. For example, a student entering college in September 2021 will submit the FAFSA after October 1, 2020, with 2019 tax data. The EFC formula looks at parents' and students' situations separately in determining how much of a family's income and assets are available to pay for college:

- Parents – 22% to 47% of Adjusted Gross Income (AGI) on their federal tax return above the protected amount plus up to 5.64% of non-retirement assets above the protected amount – including 529 plans, investments and savings (Protected amount for parents depends upon factors such as household size and number of students in college).
- Students – 50% of income above $6,660 plus 20% of all assets in bank accounts, CDs, UGMA/UTMA, and any other savings.
- Grandparents/others – 0% of income and assets. However, college contributions by grandparents or others may be considered student income and must be reported on future financial aid forms. This can reduce the amount of aid by 50% two years later.

Once the FAFSA is submitted online, it should be processed in 3-5 days after which the family will receive a Student Aid Report (SAR) – summary of FAFSA information and the EFC. Colleges the family identifies on their FAFSA will receive their SAR. These colleges will use the SAR to determine eligibility for aid and in turn, will create an award package or financial aid award letter. Grants and scholarships are free money and are not paid back – grants are needs-based and scholarships are merit-based. Families should contact the financial aid office at targeted colleges to ask if there are additional requirements for receiving financial aid.

Because aid is offered on a first-come, first-served basis, the FAFSA application should be submitted as soon as possible after the October 1st availability date. If 2020 income will be lower than 2019, the family should contact each school and explain and document the change in income. Schools may have the ability to assess each situation and adjust a family's FAFSA form if warranted.


Free Application for Federal Student Aid

Some schools require an additional online application – the College Scholarship Service Profile (CSS) – for need-based grants, scholarships or loans, which are particular to that institution. The CSS Profile asks for more detailed information and calculates EFC differently than does the FAFSA. The CSS is available online on October 1st and each school sets its own submission deadline. Both the FAFSA and CSS must be filed every year a family wishes to be considered for aid.

Besides the grants and scholarships available through colleges, there are thousands of private scholarships from companies, nonprofits and community groups, which can be researched online. Saving for college is always critical and families can use college savings vehicles such as 529 accounts, UGMA or UTMA accounts, or Coverdell accounts to save and to invest funds for college. It is important to invest as early, as often and as much as possible. 529 plans offer great flexibility and tax advantages.

Most families are not able to cover all college costs with grants/scholarships and college savings accounts and must fill the remaining gap with student loans. Federal and private student loans are available to college students, families should compare both types before making any decisions. Federal loans are likely the best first option because they offer more generous borrower protections than private student loans, such as the flexibility to switch to an income-driven repayment plan, the ability to defer payments due to job loss, and forgiveness programs. Most families maximize federal student loans before turning to private loans. Federal student loans do not require a credit check, and all eligible undergraduate borrowers receive the same 2.75% interest rate (as of September 2020), which is fixed over the loan term of 10 to 30 years depending upon the plan. Private student loans will require good credit or a co-signor with good credit and may have different interest rates and terms depending upon credit scores.

As students and families enter the college application process in the fall of 2020, the value of a college degree has never been more significant, while the financing of a college education has never been more challenging.

**Please contact Cindy at (908) 864-3992 or caiken@pgbank.com with any questions.**

# Charitable Giving

## Gregory D. Sawicki, CFP™, CPA, PFS

With year end quickly approaching, tax and financial advisors are speaking with their clients about charitable giving in order to receive a tax deduction for 2020. For those that itemize deductions, contributions to 501(c)(3) organizations are deductible (with certain limits) against your income. This year, itemizers can deduct charitable contributions up to 100 percent of adjusted gross income, though at least 70 percent of that giving must be cash. Non-itemizers can deduct $300 each ($600 for a couple filing jointly).

For the philanthropically minded, long-term charitable planning can be a valuable component of a tax and estate plan. Charitable giving does not have to be complicated. It can be as simple as giving to your local place of worship, alma mater, or volunteering time to support a cause you are passionate about. That said, careful consideration helps maximize your financial impact.

Carefully selecting the assets to give can help avoid capital gains tax while providing for a current income tax deduction and maximizing your financial impact to the organization. Additionally, charitable giving can help reduce or eliminate estate tax at your passing and can serve to create a legacy for you and your family long after you die. Gifts can be given during your life or upon your death and can be given outright or within a trust.

### Choosing What to Give

Most assets of value can be given to charity; however, some assets carry more favorable tax consequences. The simplest asset to give is cash. This is also the donation charities like the best. A second category of asset that charities usually accept is called a capital asset. The two most common examples are stock and real estate. Capital assets provide a powerful dual tax benefit. If the asset has been held for longer than one year and has appreciated in value, you not only receive a charitable deduction for the full market value of the property donated, but you also eliminate paying the capital gains tax you would normally trigger upon disposition. The charity pays no tax when it sells, either.

Most types of tangible personal property can also be given to a charity. Some examples of these include cars, jewelry, and artwork. Special care must be taken when donating tangible property; if it is not related to the charity's mission, your deduction is limited to the property's cost basis. To give an extreme example: you can donate the fair market value of an old master painting you give to an art museum; it aligns with the charity's mission. If you give the same painting to a food pantry, you can only deduct what you paid for it. If you donate property worth more than $500, you should complete IRS Form 8283 when you file your tax return.

Giving your time to a charity can often be as important to the organization's mission as donating physical assets. You cannot deduct the value of your services, but you may be able to deduct certain out-of-pocket expenses incurred while volunteering (including auto mileage).

One example of a charitable contribution is a gift where you receive something in return for your contribution. Common examples are tickets to a charity's annual fund-raising dinner or golf outing. The value of your tax deduction is the difference between the price of the donation and the fair market value of the benefit received; the receipt will break this out.

## Charitable Giving Strategies

The method in which you donate can play an important role in both your personal financial planning and the long-term planning of the organization. An outright gift, either while you are living or a bequest as part of your will, is an easy and direct way to contribute. The timing impacts whether the deduction is taken against income or estate tax at your passing. You can also make a charity the beneficiary of your IRA. This strategy allows for a deduction for estate tax purposes and eliminates your heirs having to pay income taxes on required distributions.

## Charitable Trusts

Donations can also be completed using a charitable trust. Trusts can serve as powerful multi use planning tools. They come in two flavors. One trust used is the charitable lead trust (CLT). In this vehicle, the charity receives an income stream from the trust for a set period. At the end of the term, the remaining principal passes back to you or your family. One would fund a CLT with an asset expected to increase in value and frequently with one that has already appreciated. Depending on the trust's structure, the donor may receive a current income tax deduction and a discounted gift on the value of the assets for estate tax purposes. CLTs are most attractive in a low interest rate environment.

Another charitable trust is the charitable remainder trust (CRT). The CRT is the mirror image of the CLT. Trust income is payable to you or your family for a set number of years; the remaining principal goes to your selected charities or a foundation at the end of the term. The CRT can provide a current income stream, create a charitable income tax deduction, and reduce the value of your estate. CRTs are most attractive in a high interest rate environment.

## Family Foundations and Donor-Advised Funds

Foundations and funds can provide a current income tax benefit while creating a legacy for your family. A family (or private) foundation is a legal entity usually created by an attorney. You transfer assets to the foundation, which in turn makes grants to public charities. You and your family members control its operating rules and charitable gifts. Foundations are expensive to establish and manage but can endure for generations and make a lasting impact.

Simpler and less expensive than a private foundation, a donor-advised fund (DAF) allows you to take a large charitable deduction up front and direct gift to various charities over a long period of time. DAFs are sponsored by most brokerage firms and many community foundations. You can establish one with as little as $5,000, most often using appreciated stock. The transfer into the DAF is deductible. Once you transfer assets to the account, the charitable organization becomes the legal owner and has ultimate control over them. However, you advise the organization on how and when to distribute the account's assets to selected charities. There is no second deduction when funds are paid out of your DAF. DAFs allow you to take large charitable deductions in high income years while still giving ratably to your favorite charities. You also can involve family members in making donations or recommending gifts.

## Conclusion

Giving to a charity is not only personally satisfying, the IRS rewards you with tax benefits. What you give and the way you give it impact both the amount and timing of the tax advantage.

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# Selling the Privately Held Business

Kevin Bodnar, Head of Corporate Advisory

After years of building and operating a privately held business, many owners wonder how to sell. A privately held company is likely the most valuable asset someone owns; there are multiple decisions in this important exit plan. Considerations include:

- How do I go about selling my business, and to whom?
- What is my business' value?
- What are the different ways the sale can happen?
- Can I structure the sale to minimize taxes?

Owners should address these questions and more before reaching out to a potential buyer. A business sale of any size typically involves a group of professional advisors—lawyers, accountants, and investment bankers.

Let's illustrate the process using an example. Jerry founded and for many years ran a successful marketing firm. His children were not involved in the business, but he had a strong management team behind him. In fact, Jerry had already stepped back from day-to-day operations, letting his management team largely run the business for him. When Jerry decided to change gears and fully retire, selling to his team was the obvious first choice. However, none of the team members had the personal wealth needed to buy Jerry out.

## Preparation and Goal Setting

Before considering sale mechanics, Jerry should step back and consider his legacy. Like most entrepreneurs, his business was not only his largest asset; it was tied up with his identity. Jerry thought carefully about how he wanted himself and his business to be regarded once he was no longer the owner. He also considered his goals—protecting his employees, caring for his family, and supporting his favorite charities.

With some help, Jerry considered alternatives. Under these circumstances, transitioning ownership to family members was not viable. He could agree to have his business acquired by a publicly-traded company—that could be structured as a tax-free transaction, with Jerry owning buyer stock instead of selling for cash. His executive team could buy him out; that would require outside financing. Some combination of executive team and outside buyer could acquire his company, with his executive team likely owning a minority stake at the end of the day. One of Jerry's primary concerns was the tax bill—his business had almost no hard assets and he had regularly withdrawn profits. That meant almost every dollar Jerry received was likely going to be taxed.

In making this decision, Jerry worked through three broad classes of considerations:

- Evaluation of Strategic Options
- Business Books and Records
- Tax and Estate Planning

## Evaluating Strategic Options

Knowing it was preliminary, Jerry and his advisors reviewed his options:

### *1.Public Acquisition.*

Jerry liked the idea of selling his business in a tax-free, all-stock transaction. He could better control when and how much gain to recognize. A buyer who didn't need outside financing might offer a higher purchase price.

There were competing considerations as well: Jerry knew his management team would be disappointed at being excluded from the transaction. If any of them left before the sale closed, that could jeopardize the deal—or at least lower the purchase price. An all-stock transaction would also leave Jerry with the bulk of his assets in a single corporation, over which he had no control. Finally, being acquired by a public company could mean Jerry's business—even its name—might cease to exist. Jerry wasn't willing to let that happen.

### *2.Private Acquisition.*

A private acquisition can either be strategic (a larger private company buys Jerry's business to expand its footprint), financial (a private equity acquisition), or some combination of the two. A private equity group likely has the means to acquire Jerry's business without needing outside financing, whereas a strategic purchaser might partner with private equity. Either may allow a higher purchase price. The sale would be fully taxable, but Jerry could receive the proceeds over several years, mitigating the tax impact. Any private sale could involve Jerry's current management team, though they would have a minority interest in the eventual enterprise.

Jerry expected his employees would have trepidations about a private acquisition and their continuing roles in his business. With the assistance of his professional advisors, Jerry was determined to sell to his existing senior employees while realizing the same after-tax gain on that sale.

### *3.Sale to Existing Management.*

Existing management would require outside financing to buy Jerry out. It would likely consist of a smaller down payment compared to selling to a third party, with a longer payout stream from future earnings. The result would be a lower net present value. Jerry liked the idea of a future income stream and was committed to having his management team lead his business into the future but was concerned about being a junior creditor to the management group's lender.

Jerry, his advisors, and the third party financing the purchaser worked together to structure the sale, giving Jerry the largest up-front payment and to assure him the business would generate the profits needed to pay him in full. For that, they turned to the books and records.

## Business Books and Record

For his management team to obtain outside financing, Jerry's business must build out its books and records.

Well organized data and information might sound straightforward but often is not. The sales process is easier when prospective buyers and their financial backers can efficiently measure financial trends, determine where and how earnings are generated, and where there is potential opportunity. Usual and customary information includes: historical financial statements and tax returns, budgets and forecasts, contracts, licenses, leases, fixed asset schedules, customer revenue trends, profit margin by product and client, schedules for pending or threatened litigation, corporate books and records, board minutes and shareholder agreements.

This is just the beginning – every business has its nuances. The clearer the financial picture to outside parties, the greater the likelihood of a smoother sale process with a better valued business. Sometimes this process can be very time consuming and involve completely re-stating the company's financials or getting a "Quality of Earnings" assessment performed. The Quality of Earnings assessment is akin to an audit, teasing out the income and expense items that would not continue post sale. Jerry and his advisors spent significant time documenting the value of his business to his management team's outside financers.

## Tax and Estate Planning

Taxes are often a critical consideration when transitioning ownership within family members or selling to an independent third party. After tax proceeds matter! Effective planning can enhance the after-tax value of a business.

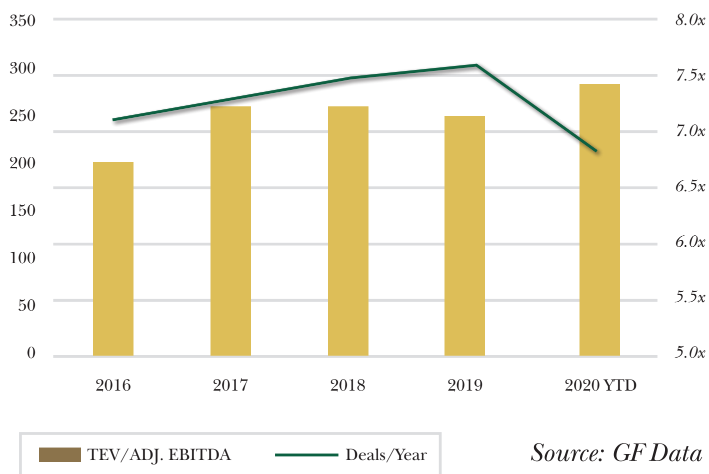
Jerry was particularly concerned about a taxable sale because he had essentially no cost basis in his business. That meant every dollar he received was likely to be taxable. Jerry worked with his advising team to minimize the tax impact of the sale.

Jerry's advisors also worked with him and his wife to revise their financial and estate plans, to incorporate the increased liquid wealth. They discussed trusts for his children and grandchildren, along with the significant charitable impact Jerry and his wife could make.

## Business Value

Clearly, there are a plethora of factors to consider when selling your business. It is never too early to begin positioning the business for transition. Mid-market companies in particular are actively being acquired, as the charts below show. Their owners should be seriously looking at options.

**Middle Market Average Multiples and Deal Volume**




*Source: GF Data*

## Total Enterprise Value (TEV)/EBITDA: All Industries

| TEV | 2003-2015 | 2016 | 2017 | 2018 | 2019 | YTD 2020 | Total | N – |
|---|---|---|---|---|---|---|---|---|
| 10-25 | 5.6 | 5.8 | 6.3 | 5.9 | 6.1 | 5.9 | 5.7 | 1,399 |
| 25-50 | 6.2 | 6.4 | 6.6 | 6.9 | 6.9 | 6.8 | 6.4 | 1,067 |
| 50-100 | 6.8 | 7.2 | 8.2 | 8.8 | 7.5 | 8.3 | 7.3 | 728 |
| 100-250 | 7.4 | 8.8 | 9.1 | 8.7 | 9.4 | 9.5 | 8.2 | 379 |
| Total | 6.2 | 6.7 | 7.2 | 7.2 | 7.1 | 7.4 | 6.5 | - |
| N – | 2,361 | 243 | 267 | 288 | 301 | 113 | - | 3,573 |

Please note that N for 2003-15 encompasses thirteen yeats of activity
*YTD is as of Aug 2020*

*Source: GF Data*

Contact Kevin at (908) 443-5385 or kbodnar@pgbank.com with any questions.

# A Social Security Primer

## By Claire E. Toth, JD, MLT, CFP™

As Boomers and even some Gen Xers move into retirement, sometimes hastened by the pandemic, Social Security benefits loom large. Before claiming a benefit—just because you can—understand what goes into that benefit. This can help you determine the optimum time to claim and how to coordinate your benefit with your spouse's. If you are years away from retirement, understanding how the benefit is calculated helps you maximize yours.

### Determining Your Benefit

To qualify for Social Security benefits, you must have worked and paid a minimum level of Social Security taxes for at least 40 calendar quarters, or ten years. They need not be consecutive. In fact, so long as you earn four times the minimum quarterly amount (currently $1,410) at any time in a calendar year, you get four quarters of credit for that year. For most people, qualifying is relatively automatic.

Your eventual Social Security benefit is calculated on the maximum amount of earnings out of which Social Security taxes are withheld—currently $137,700. That number is inflation-adjusted annually. Any earnings above that level are not considered. Of course, if you earn less than that in any year, your withholding (and benefits calculation) is less than the maximum.

The second part of the benefit calculation is to take your highest 35 years of salary, gross them up, and determine the average. This involves several steps. If you spent fewer than 35 years in the paid workforce, some of those 35 years' earnings will be zero, reducing your average salary for Social Security purposes. If you were in the workforce for more than 35 years, the lowest-earning years are dropped from the calculation. Once the years to be included are identified, earnings before age 60 are indexed upwards so that all years' salaries have the same earning power. This indexing is based on wage growth over the course of your career, not on the consumer price index. Wage growth typically exceeds the CPI, and the indexing reflects increases in your standard of living, not just increases in the cost of goods. The wage-indexed 35 years' earnings are added together and divided by 420 (the number of months in 35 years). This gives you your Average Indexed Monthly Earnings, or AIME.

Finally, your AIME is used to calculate your monthly benefit, incorporating a system of bend points. The effect of bend points is to give lower-paid workers a proportionately higher Social Security benefit than higher-paid workers. Bend points vary every year. For workers who retire with full benefits this year, the benefit is 90 percent of the first $960 of AIME, 32 percent of AIME between $960 and $5,875, and 15 percent of AIME above $5,875, for a total maximum full retirement benefit of around $3,277 monthly at full retirement age. Social Security potentially replaces about 40 percent of your AIME.

The net effect of this? More years of moderate earnings gives a larger benefit than a few years of high earnings. Indexing past wages means those early years in the workforce can have an outsized effect on the eventual Social Security benefit.

## Receiving Your Benefit

You can begin receiving Social Security benefits as early as age 62 or as late as age 70. Full retirement benefits aren't available until age 65-67, depending on your birth year. Before that age, benefits are reduced from 20-30 percent, again depending on date of birth. If possible, you should hold off claiming benefits. So long as you live to about age 77, you will receive more by waiting until full retirement. If you wait until after reaching full retirement age, your benefit will continue to increase, at eight percent annually, until age 70. Also, if you choose to receive benefits before full retirement age and continue to work, you are subject to having those benefits reduced while you are still in the workforce—another reason to hold off on taking them.

***If you wait until after reaching full retirement age to claim Social Security, your benefit will increase at eight percent annually.***

Unlike most private pension plans, Social Security benefits are adjusted annually for inflation. This adjustment is based on the consumer price index and is intended to maintain purchasing power. Depending on the recipient's overall income, benefits may also be taxable. A maximum of 85 percent of the benefit is taxable at the federal level. Most states—among them New York, New Jersey, and California—don't tax Social Security benefits.

## The Spousal Benefit

So far, this discussion has been about each person's individual benefit. In the traditional family, the husband works (presumably for at least 35 years) and the wife spends considerably less time in the paid workforce. Thus, her annual benefits statement may show a very low projected benefit. For instance, the husband's statement may show a monthly benefit of $2,800 or so, while the wife's shows a monthly benefit of $900.

This isn't necessarily so. When the lower-earning spouse is ready to receive benefits, she (typically it's the wife) receives her own benefit or half of her husband's, whichever is larger. Thus, in the example above her benefit would be $1,400, not $900. Timing rules can complicate this—the wife cannot receive the spousal benefit until the husband claims is own, and the spousal benefit is capped at half the husband's full retirement benefit. If the husband claims early, the wife can still receive half his full benefit.

To receive the spousal benefit, the couple must have been married for at least ten years. A divorced spouse can receive half of her former husband's benefit, again so long as the marriage lasted ten years. An oft-married low-earning spouse can receive only one spousal (or individual) benefit, although an oft-married high-earning spouse can provide multiple spousal benefits. At the death of one spouse, the survivor continues to receive the higher of the two benefits. With so many moving pieces, a married couple must carefully coordinate their benefits. The greater the disparity in years in the workforce or in age, the greater the chance for a misstep. Social Security provides about 27 percent of an elderly couple's income but 45 percent of an elderly unmarried or widowed woman's. A husband's decision about claiming Social Security can have profound and lasting impacts on his wife's financial future.

**Contact Claire at (908) 598-1717 or ctoth@ptview.com for more information.**

# Medicare Enrollment: Timing is Everything

## Dawn Brown, CFP®

Milestone events usually call for celebrations. Attaining age 65 in the USA signals the start of eligibility for Medicare, but few celebrate its complexities.

First there's the alphabet puzzle of Medicare: Parts A, B, D, and how does C fit in? Part A is hospital insurance and costs you nothing; Part B is medical insurance; Part D is prescription drug coverage; and Part C is the Medicare Advantage Plan, combining and replacing Parts B and D. Once you understand those puzzle pieces, you enter the maze of choosing between Original Medicare or Medicare Advantage, possibly including one of the 10 Medigap plans and deciding on which drug plan is right for you. Those complexities cannot be addressed in a short article. Every state provides free Medicare counseling called SHIP; private professionals can also help.

Almost as confusing as how to choose is when to choose. Failing to enroll in time for Medicare can cost lifetime penalties. When to sign up for Medicare? This chart summarizes some of the decisions; the rest of this article unpacks them further.

If you began receiving Social Security or Railroad Retirement Benefits before age 65, you will automatically be signed up for Medicare Parts A and B. Otherwise, your initial enrollment period for Part B is three months before your 65th birthday, during your birth month, and three months after your birthday month. During your initial enrollment period, apply or register for Medicare through Social Security's website at www.ssa.gov. For example, a person turning 65 in March 2021 can enroll as early as December 2020 and should enroll by June 2021. Even if you have other healthcare coverage, register during your initial enrollment period; you can decline Part B. There are lifetime penalties for failing to do so.

| Situation | Part A (Hospitalization) | Part B (Medical) | Part C (Medicare Advantage) | Part D (Prescription Drugs) |
|---|---|---|---|---|
| Already receiving Social Security or Railroad Retirement benefits | Automatic—no action needed | Automatic—no action needed | Register within seven months centered on 65th birthday | Register within seven months centered on 65th birthday |
| Working for large employer (20+) with health benefits | Register within seven months centered on 65th birthday unless in high deductible/HSA plan | Waive, unless company plan requires sign up for Medicare | Waive, unless company plan requires sign up for Medicare | Waive, unless company plan requires sign up for Medicare |
| Working for small employer (<20) with health benefits | Register within seven months centered on 65th birthday unless in high deductible/HSA plan | Register within seven months centered on 65th birthday | Register within seven months centered on 65th birthday | Register within seven months centered on 65th birthday |
| On retiree health insurance or COBRA | Register within seven months centered on 65th birthday unless in high deductible/HSA plan | Register within seven months centered on 65th birthday | Register within seven months centered on 65th birthday | Register within seven months centered on 65th birthday |
| Uninsured | Register within seven months centered on 65th birthday | Register within seven months centered on 65th birthday | Register within seven months centered on 65th birthday | Register within seven months centered on 65th birthday |
| Failed to sign up on time | January to March 31 | January 1 to March 31 | April 1 to June 30 | April 1 to June 30 |

If you have group health insurance coverage through your or your spouse's current employer with more than twenty employees, you can keep that employer coverage and switch to Medicare later during a special enrollment period. There are no penalties. If you have retiree group health coverage through your previous or spouse's previous employer or COBRA, you must enroll during your initial enrollment period. If you are employed by a company with fewer than 20 employees, Medicare will likely be your primary health insurance; again, sign up during your initial enrollment period. The penalty for not signing up for coverage on time is 10% for each 12-month period you were eligible to enroll for Part B but did not. It is important to understand how any employer health plan you plan to continue beyond age 65 will interact with Medicare and which plan will pay first. Also know that if you are on Medicare and still employed, you can no longer contribute to a Health Savings Account, although you can continue to participate.

Consider this example. Michelle became eligible for Medicare when she turned 65 in 2017. She did not register for Medicare during her initial enrollment period. Michelle worked for a small employer with fewer than 20 employees and lost both her job and her health insurance in March 2020. Her penalty equals 20% of the standard premium for signing up two years late. If Michelle's normal premium would have been $144.60, it will now be $173.50. This 20% penalty continues for the entire time she has Medicare Part B.

There is a special enrollment period for signing up for Medicare Part A and B, if you were covered by a group plan with more than 20 employees. That period is the eight-month period your employment or health plan coverage ends. You can also choose to sign up at any time that you are still working. Thus, if Michelle had worked for a larger employer, she would not have incurred a penalty.

If you do not qualify for a special enrollment period and did not sign up for Medicare during the initial enrollment period, you must wait for a general enrollment period. Not only will you incur the penalty on monthly premiums, you may experience a coverage gap. The general enrollment period is from January 1 to March 31 each year. Coverage will not start until July 1.

In the previous example, Michelle would have to register for coverage by March 31st, but that Medicare coverage would not start until July 1. If Michelle missed the March 31 deadline and applied during the next year's general enrollment period, her Medicare plan would not begin until July 2021. She would experience a 15-month delay in starting Medicare, and her penalty would increase to 30%. Getting individual coverage while eligible for Medicare but not enrolled has its own set of headaches.

You can also register for Medicare advantage plans (Part C) and Medicare prescription drug plans (Part D) during your initial enrollment period. If instead you enroll for Medicare Parts A and B during the general enrollment period of January 1 to March 31, the enrollment period for Parts C and D is April 1 to June 30.

Just as there are penalties for failing to enroll for Part B on time, there are other penalties for late enrollment in Part D. If you do not have employer prescription coverage and do not sign up for Part D during the initial enrollment period or within 63 days thereafter, you face a penalty of 1% of the national base premium times the amount of months you did not have coverage. Again, that penalty may last the rest of your life.

There are also yearly open enrollment periods for Parts C and D. This gives you a chance to evaluate your options, which is particularly important with drug plans. Your medications may change; coverage options may change. The open enrollment period runs from October 15th to December 7th. The website www.medicare.gov is a useful resource for evaluating drug plans. You can enter each prescription drug you take into the website determine which is the best plan for you. Do this annually because the coverage can change. If you do not check your plan annually, you will not incur a penalty, but you may pay more than necessary for your medication.

There are other special enrollment periods for Parts C and D if you have certain changes in your life. These can include moving to a different state or Medicare dropping a plan.
It may not be easy to keep track of these dates and enrollment periods but failing to enroll at the right time can result in lifetime penalties.

**Contact Dawn at (908) 642-8918 or dawn@lassuswherley.com for more information**

PEAPACK PRIVATE
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