

Affordable Care Act Subsidies Might Be Option for Retirees



Q: I retired at 60 this year and have savings in my retirement account plus after-tax investments. I have very little income and think that I will qualify for health care subsidies. My tax rate is low. Where should I start?

A: You have a unique opportunity and even though the subsidies are currently being challenged in states that use the federal health care marketplace (including Florida), subsidies are still available.

The Affordable Care Act (ACA) subsidies, also called premium tax credits, are based on household size and household income.

The benchmark health insurance plan, in conjunction with your income, is used to determine your subsidized premium. If you would like to calculate your estimated subsidy, there are calculators online like the one provided by Henry J. Kaiser Family Foundation at kff.org. You can also get information at healthcare.gov.

For household income, the income floor is the federal poverty level of \$11,490 for singles. Subsidized exchange coverage is available for single households between \$11,490 and (up to four times the poverty level) \$45,960.

ACA defines household income as Modified Adjusted Gross Income (MAGI) which is generally your adjusted gross income plus any tax-exempt Social Security, interest, or foreign income. For most people your AGI will likely be your MAGI. Your household income or MAGI will be calculated for you with the income information you include on your application.

Create a spreadsheet and project your annual expected income from all sources until you reach age 65. Calculate whether you should take distributions from your IRA and be sure to stay under the \$45,960 level.

IRA withdrawals are taxed as ordinary income and you're over age 59½, making your withdrawals penalty-free. This year the 15% tax bracket (single person) permits about \$47,000 in gross ordinary income before you hit the 25% bracket (standard deduction).

The subsidy amount is based on a sliding scale (between

2% and 9.5% of household income) depending on your income between \$11,490 and \$45,960. If your income is less than \$11,490, you may not be eligible for a health care subsidy. This is an opportunity to take income from your IRA that qualifies you for the subsidy.

Subsidies are available until you're eligible for Medicare at age 65. The next proposed open enrollment is November 15, 2014 – February 15, 2015. If there is a 'qualifying life event' such as a change in family size, income, or job situation, you can apply then.

To take advantage of a subsidy, manage your MAGI to stay below the \$45,960 level for your single household. And be sure it's above \$11,490. Manage income from all sources.

Consult your advisors. Review your income options and subsidies available. Health insurance professionals are helpful with choosing a plan and estimating your subsidy.

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