April 22, 2019

He Did Not Use A CPA

Uri Rafaeli is an 83 year old engineer and a great grandfather. He never expected the government to treat him like a drug dealer. But last year, the Michigan Court of Appeals held that a county government could use civil asset forfeiture to seize a modest rental property that Mr. Rafaeli owned because he accidentally underpaid his property taxes by $8.41.

In 2011, he inadvertently underpaid his property taxes by $496. When he learned of his mistake in 2013, Mr. Rafaeli attempted to pay the debt in full but failed to account for the interest liability of $8.41 that had accumulated since he received the bill. Unaware of his error, Mr. Rafaeli went on to pay his taxes in a timely manner in subsequent years. Nevertheless, in February 2014, Oakland County foreclosed on the property to collect the $8.41 plus $277 in penalties and additional interest and fees. Six months later, the county sold the property at auction for $24,500 and refused to refund Mr. Rafaeli any of the profits.

The Michigan Supreme Court agreed last month to hear Mr. Rafaeli's case and will decide whether the Court of Appeals erred in its ruling that Oakland County had not violated the US Constitution "just compensation" requirement.

Mr. Rafaeli is prepared to take his case all the way to the US Supreme Court, if necessary, to stop bureaucrats from turning property tax collection into an instrument of government theft.

If only he had used a CPA to help satisfy his obligation, this litigation and additional cost might have been avoided. *Wall Street Journal 12/8-9/18 p. A13.*

Medicare Hike For High Income Clients

Since 2007, Medicare beneficiaries whose income exceeds $85,000 for individuals and $170,000 for married couples have required an income related monthly adjustment amount surcharge known as IRMAA, in addition to their regular monthly Medicare premiums. The IRMAA surcharges apply to both Medicare Part B, which covers outpatient services and doctors' fees and Medicare Part D prescription drug plans.

In 2019, most of Medicare's 60,000,000 beneficiaries will pay the standard Part B premium of $135 per month up slightly from 2018's $134 per month. But, about 3,000,000 high-income retirees will pay additional surcharges ranging from $54.10 to $325 per month per person for Medicare Part B. The same retirees are also subject to surcharges on their Medicare prescription drug plans, ranging from an extra $13 per month to an extra $74.80 per month per person on top of their monthly premium.

A married couple in the top income bracket who are both enrolled in Medicare would pay more than $11,000 for Part B premiums and surcharges in 2019 plus more than $2,600 for prescription drug coverage. In addition, they will need to buy a supplemental Medigap policy to cover annual deductible and co-payments. That could cost another $7,800 for two spouses based on the average price of Plan F, the most popular Medigap policy that would bring couple's total out of pocket medical costs to more than **$21,000** before they see a doctor or fill a prescription.

63 Is The New 65

The value of working longer has become a mantra in retirement planning circles in recent years. Staying on the job even a few extra years can create a big inflection point for a retiree's retirement security via higher monthly Social Security payments, more years of retirement saving and investing, fewer years of drawdown and more years of employer-subsidized health insurance.

A recent study by Morningstar shows how a plan to work longer can work against the potential retiree if retirement comes sooner than expected and savings fall short.

The actual median retirement age is closer to 63, not 65, the age most used in client plans.

The University of Michigan conducted a study to compare when people predicted they would retire and when they actually did. The data suggested that planned and actual retirement ages align at 63, people who planned to retire earlier than that age tend to retire later, and those who plan to retire after 63, retire earlier than expected.

A conclusion to be drawn from this is to increase the saving rates wherever possible to protect against overly optimistic assumptions. *Wealth Management 10/2018 p. 50.*

Student Loan Forgiveness Is A Truant

44 million people have educational debt. There is a new program, which became effective in 2017 called Public Service Loan Forgiveness, which allows public servants with a certain type of federal student loan to have their debt discharged after 120 monthly payments (10 years). Confusion about the program's requirements combined with sloppy implementation on the part of student loan companies have made it difficult for eligible borrowers to qualify. Of the roughly 28,000 people who filed an application for debt forgiveness under the program as of June 2018, **just 96 had loans forgiven.** It is hard to say why the acceptance rate is so low.

To be eligible, borrowers must work full time in a public service job for the right type of employer, typically a federal, state or local government or a non-profit with a 501(c)3 designation. They must have a federal Direct Loan and be in an income driver repayment plan in order to benefit. Borrowers who think they might qualify for PSLF should reach out to their servicer and ask whether they have Direct Loans, and, if not, how they can consolidate their student debt into Direct Loans.

Federal Family Education Loans do not qualify but borrowers can consolidate their FFEL debt into Direct Loans.

Teachers who work for 5 consecutive years in qualifying schools serving low-income students may be able to forgive up to $17,500 depending upon the subject taught.

Nurses, firefighters, public defenders and others may be eligible for cancellation of their Perkins Loans. Typically, a percentage of the loan is forgiven for each year of service culminating in 100% of the loan being discharged after up to 7 years.

States and regions across the country offer a variety of student loan forgiveness programs, most of which are tied to a specific occupation or those tied to living in a certain region or both.

You may want to contact the Institute of Student Loan Advisors, which recently compiled a list of 115 debt-forgiveness programs. *Wall Street Journal 12/17/18 p. R3.*

As always, if you have any questions about these or any other matters, do not hesitate to call us.