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When buying a medigap policy, it pays to shop around

Medigap policies that supplement Medicare's basic coverage can cost vastly different amounts, depending on the company selling the policy, according to a recent study. The findings highlight the importance of shopping around before buying a policy.

When looking for a Medigap policy, make sure to get quotes from several insurance companies.

When you first become eligible for Medicare, you may purchase a Medigap policy from a private insurer to supplement Medicare's coverage and plug some or virtually all of Medicare's coverage gaps. You can currently choose one of eight Medigap plans that are identified by the letters A, B, D, G, K, L, M, and N (Those who were eligible for Medicare before January 1, 2020, could also purchase Plans C and F, but those plans are not available to people newly eligible for Medicare). Each plan package offers a different menu of benefits, allowing purchasers to choose the combination that is right for them.

While federal law requires that insurers must offer the same benefits for each lettered plan — for example, plan G offered by one insurer must cover the same benefits as the plan G offered by another insurer — insurers set their own prices for each plan, and prices can vary considerably.

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The American Association for Medicare Supplement Insurance compared the cost of plans in the top 10 metro areas and found huge price differences. Using Plan G (the most popular plan) for comparison, the association found that in Dallas the lowest price for

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Understanding a living trust vs. an irrevocable trust

Trusts can be useful tools to protect your assets, save on estate taxes, or set aside money for a family member. But before you commit to adding a trust to your estate plan, make sure you understand the differences between revocable (also called "living") and irrevocable trusts. Each offers advantages and disadvantages, depending on their purpose.

While the two main types of trusts are both tools for setting aside assets and distributing them according to specific wishes and instructions, they differ in how they are structured and taxed.

Structure

As the name suggests, once an irrevocable trust is established, it can't be canceled or revoked. The person creating the trust, sometimes called the "grantor," transfers assets into the trust and permanently gives up all claim to them. A trustee is appointed to carry out the instructions spelled out in the trust. No changes to the terms of the trust can be made without the consent of the trust's beneficiaries.

In contrast, a living trust offers more flexibility. The grantor of a living trust still owns and controls the assets and can make changes at any time. A living trust also has a trustee, who would take over management of the trust if the grantor is no longer capable of doing so.

Taxes

Both types of trusts offer tax advantages, although these differ in key ways. An irrevocable trust is considered a separate entity and must have its own tax returns filed annually under its tax ID number. Irrevocable trusts can incur additional costs if an accountant is needed for tax preparation. Because it is a trust and not an individual, the irrevocable trust can't qualify for the various deductions and exemptions that individuals can claim on their returns. Also, higher rates apply at lower income levels. For example, an irrevocable trust is subject to the highest federal tax rate of 37 percent if its income exceeds $12,500, a much lower ceiling than for individuals.

Assets within a living trust are still considered the property of the trust owner. Any income earned from this trust is filed along with the owner's other income. Also, the assets of the trust belong to the owner's estate and are taxed accordingly on the owner's death. For this reason, wealthy families may choose to transfer a portion of their assets into an irrevocable trust to keep the value of their estate below federal and state exemptions.

Protecting assets in the future

One key advantage of irrevocable trusts is that their assets are protected from lawsuits and creditors. A living trust offers no such protection, because the trust assets are still part of the owner's property.

A living trust is an option for someone who doesn't need all the layers of protection but still wants to set up some provisions for the future. A living trust works well to set aside assets in the event that the grantor becomes unable to manage his or her finances in the future, due to illness or old age. With a living trust, the grantor controls the property while he or she is competent, but a trustee can take over this function if the grantor loses this capacity.

If there are other considerations, such as estate tax planning, protection from creditors, or providing for a family member with special needs, an irrevocable trust might be the better way to go. Your attorney will have the best answers for your particular circumstances.

When buying a medigap policy, it pays to shop around

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a 65-year-old woman was $99 a month, while the highest price was $381 a month. That's a yearly difference of more than $3,000 for the exact same plan.

The association also found that no one company consistently offered the lowest or highest price. That means you can't rely on one insurer to always have the better price.

When looking for a Medigap policy, make sure to get quotes from several insurance companies. In addition, if you are going through a broker, check with more than one because not every broker represents every insurer. It can be hard work to shop around, but the price savings can be worth it.

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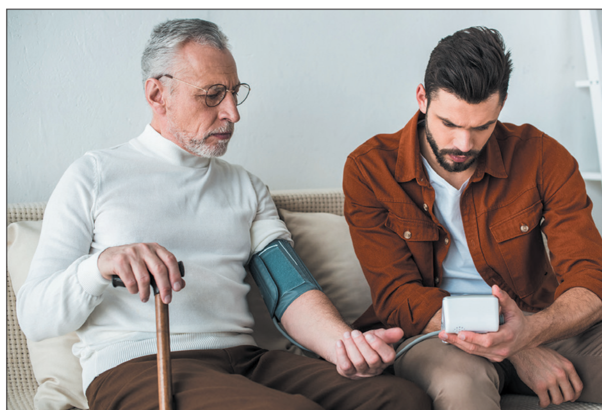
Medicaid's gift to children who care for parents at home

In most states, transferring your house to your children (or someone else) may lead to a Medicaid penalty period, which would make you ineligible for Medicaid for a period of time. However, there are circumstances in which transferring a house will not result in a penalty period.

One of those circumstances is if the Medicaid applicant transfers the house to a "caretaker child." This is defined as a child of the applicant who lived in the house for at least two years prior to the applicant's entering a nursing home and who during that period provided care that allowed the applicant to avoid a nursing home stay. In such cases, the Medicaid applicant may freely transfer a home to the child without triggering a transfer penalty. The exception applies only to a child, not a grandchild or other relative.

Each state Medicaid agency has its own rules for providing proof that the child lived with the parent and provided the necessary level of care, making it important to consult with your attorney before making this (or any other) kind of transfer.



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A home may be also transferred without Medicaid's usual penalty to:

- A spouse,
- A child who is under age 21 or who is blind or disabled, or
- A sibling who has lived in the home during the year preceding the applicant's institutionalization and who already holds an equity interest in the home.

How to fix a required minimum distribution mistake

The rules around required minimum distributions from retirement accounts are confusing, and it's easy to slip up. Fortunately, if you do make a mistake, there are steps you can take to fix the error and possibly avoid a stiff penalty.

If you have a tax-deferred retirement plan such as a traditional IRA or 401(k), you are required to begin taking distributions once you reach a certain age, with the withdrawn money taxed at your then-current tax rate. If you were age 70 1/2 before the end of 2019, you had to begin taking required minimum distributions (RMDs) in April of the year after you turned 70. But if you were not yet 70 1/2 by the end of 2019, you can wait to take RMDs until age 72. If you miss a withdrawal or take less than you were required to, you must pay a 50 percent excise tax on the amount that should have been distributed but was not.

It can be easy to miss a distribution or not withdraw the correct amount. If you make a mistake, the first step is to quickly correct it and take the proper distribution. If you missed more than one distribution, either from multiple years or because you withdrew from several different accounts in the same year, it is better to take each distribution separately and for exactly the amount of the shortfall.

The next step is to file IRS form 5329. If you have more than one missed distribution, you can include them on one form as long as they all occurred in the same year. If you missed distributions in multiple years, you need to file a separate form for each year. Married couples who both missed distributions each need to file their own forms. The form can be tricky, so follow the instructions closely to make sure you correctly fill it out.

In addition to completing form 5329, you should submit a letter explaining why you missed the distribution and informing the IRS that you have now corrected your mistake. There is no clear definition of what the IRS will consider to be a reasonable explanation for missing a distribution, but if the agency does not waive the penalty it will send you a notice.

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How will the coronavirus pandemic affect Social Security?

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The coronavirus pandemic is having a profound effect on the U.S. economy, and it may have a detrimental effect on Social Security's long-term financial situation. High unemployment rates mean Social Security shortfalls could begin earlier than projected.

Social Security retirement benefits are financed primarily through dedicated payroll taxes paid by workers and their employers, with employees and employers splitting the tax equally. This money is put into a trust fund that is used to pay retiree benefits. The most recent report from the trustees of the Social Security trust fund concluded that the fund's balance will reach zero in 2035. This is because more people are retiring than are working, so the program is paying out more in benefits than it is taking in.

Additionally, seniors are living longer, so they receive benefits for a longer period of time. Once the fund runs out of money, it does not mean that benefits stop. Instead, retirees' benefits would be cut, unless Congress acts in the interim. According to the trustees' projections, the fund's income would be sufficient to pay retirees 77 percent of their total benefit.

With unemployment at record levels due to the pandemic, fewer employers and employees are paying payroll taxes into the trust fund. In addition, more workers may claim benefits early because they have lost their jobs.

Some experts believe that the pandemic could move up the depletion of the trust fund by two years, to 2033. Others argue that it could have a greater effect and deplete the fund by 2029.

It remains to be seen exactly how much the pandemic affects the Social Security trust fund, but the experts agree that as soon as the contagion recedes, Congress will likely take steps to shore up the fund.