Snowbirds: Tax laws to know before you buy a winter home.

Purchasing a winter home can be an exciting venture, especially for pre-retirees and retirees looking to enjoy their post-working years. But before you make that down payment, it's important to realize the financial impact this decision may have. Here are some key points to keep in mind:

Property taxes

Property taxes are a primary concern when purchasing a second home. Since these taxes can vary significantly from state to state—and even between municipalities—you'll want to compare them before selecting a location. For instance, Florida's effective tax rate is 0.91%,[1] while Hawaii enjoys the lowest at just 0.32%.[2]

Income taxes

If you plan to spend a considerable amount of time in your winter home, you may be subject to that state's income tax laws. The IRS determines your primary residence by where you spend the most time and your legal address listed for tax returns, with the USPS, on your driver's license, and on your voter registration card. They also take into consideration where you work or bank, any recreational clubs you may belong to, or the locations of other family members' homes.[3] Some states, like Florida[1] and Texas,[4] have no state income tax, while California[5] and New York[6] have some of the highest rates, which could dramatically affect your budget.

Sales taxes

While this might seem minor compared to property and income taxes, it's worth considering sales taxes if you plan to make significant purchases in your new location. States like Oregon[7] and Delaware[8] have no sales tax, whereas states like Tennessee[9] and Louisiana[10] have rates as high as 9.55%.

Estate taxes

Estate taxes also vary by state and can significantly impact those who have accumulated substantial wealth. For example, New York[6] levies a tax of up to 16% on estates valued at more than $6.58 million. In contrast, Florida[1] has no estate tax.

Tax relief programs

Many states offer homestead exemptions or other tax relief programs for seniors, veterans, and other groups. For instance, Florida offers a homestead exemption that can reduce the taxable value of a home by up to $50,000 for residents.[1] Be sure to check your eligibility so that you don't miss out on substantial savings.

Purchasing a winter home can provide a wonderful retreat, but it's important to keep the tax implications in mind. It's recommended that you schedule a meeting with a tax professional to understand how the purchase of a second home can impact your taxes.

[1] Florida Department of Revenue
[2] State of Hawaii Department of Taxation
[3] IRS
[4] The Texas Comptroller's office
[5] California Tax Service Center
[6] New York State Department of Taxation and Finance
[7] Oregon Department of Revenue
[8] State of Delaware Tax Center
[9] Tennessee Department of Revenue
[10] Louisiana Department of Revenue

If you have questions, feel free to reach out to me at your convenience.

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Where can you get healthcare in retirement?

One of the biggest questions you will probably need to consider before you retire is what to do about healthcare. That's because most working-age Americans depend on employer-sponsored health insurance to meet their medical needs.

> According to the Congressional Budget Office (CBO), 58% of Americans under the age of 65 have employment-based health insurance.[1]

While some retiring workers may receive ongoing healthcare benefits, the majority will have to look for new solutions as soon as they leave the workforce. Since healthcare is one of the largest expenses you are likely to face in retirement, it's important to consider all your options and look for ways to minimize the cost.

The following information can help you get started.

(continued on next page)

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Healthcare in retirement. (continued)

Medicare

Listed first for a reason, Medicare is the primary healthcare option for millions of retirees. This federally funded program covers all American citizens, ages 65 and older, as well as some legal permanent residents. Since not all retirees require—or qualify for—all benefits, Medicare coverage is broken into four parts:

Part A (Hospital Insurance) is designed to cover inpatient hospital care, skilled nursing care, hospice care, and home healthcare. In most cases, this coverage is free to anyone who has worked and paid Medicare taxes.[2] If you are not eligible to participate in the plan, you may be able to purchase coverage on your own.

Part B (Medical Insurance) helps cover the cost of outpatient, diagnostic, and preventive services such as office visits, lab tests, health screenings, and required medical equipment. In this case, participants pay a monthly premium that is automatically deducted from your Social Security payments.

Part C (Combined Coverage), which is more commonly known as Medicare Advantage, is a comprehensive healthcare plan that is managed by private insurers such as United Healthcare, Blue Cross Blue Shield, Aetna, Humana, and Cigna. These plans are paid out of pocket and offer "bundled" services that often include all other Medicare parts, as well as additional services such as vision and dental. In many cases, however, you can only use doctors and service providers that are "in-network."

Part D (Medication Coverage) offers prescription drug coverage that can be purchased separately or as part of a Medicare Advantage (Part C) plan. This insurance covers the cost of most major medications, but there is an annual benefit limit that, when exceeded, will require you to pay remaining costs out of pocket.

Medicare Supplement Insurance (Medigap)

As the name suggests, this coverage is designed to work alongside your Medicare A and B benefits. This supplemental insurance can be purchased though most major carriers and helps cover copays, deductibles, and other expenses not addressed by Medicare.

COBRA

As you retire, you may be able to extend your existing workplace coverage using COBRA (the Consolidated Omnibus Budget Reconciliation Act). With COBRA, you can keep your current plan for a maximum of 18 months; however, you will probably have to pay a greater share of the cost than you did as an employee.

Private Coverage

If you are not eligible for Medicare, or choose not to enroll, you can purchase a healthcare plan on the open market. While this can be an expensive proposition—especially as you age—you may have more choice and flexibility when it comes to selecting your coverage.

Health Insurance Marketplace

The Heath Insurance Marketplace is a centralized platform that offers health insurance plans to people who are uninsured and do not qualify for Medicare coverage. While these plans are provided by private insurers, they are government subsidized and can be more affordable than those found in the open market.

Veterans Affairs (VA) Healthcare

This coverage is available to military veterans who have served at least 24 months and have received an honorable discharge. VA benefits can often be used in combination with other healthcare options such as Medicare.

[1] "Reduce Tax Subsidies for Employment-Based Health Insurance," Congressional Budget Office, December 7, 2022. https://www.cbo.gov/budget-options/58627
[2] "Eligibility for Premium-Free Part A if You Are Over 65 and Medicare-Eligible," Medicare Interactive.
See www.medicare.gov for information on Medicare and www.va.gov if you are a veteran. Please consult with your employer regarding COBRA, your resident state website for the Health Insurance Marketplace, and individual health carriers for private coverage.

Should you and your spouse stagger your retirements?

You may dream of retiring side by side with your spouse—but what if staggering your retirements could lead to a more secure and fulfilling future? Many couples find that retiring at different times not only makes sense financially, but also emotionally. Before making your decision, it's important to understand how this approach could shape your retirement plans.

Economic flexibility

When one spouse continues to work, you can maintain a steady income stream while delaying—or reducing—withdrawals from your retirement savings. This approach helps preserve your savings and makes it possible for one of you to continue making contributions to your retirement account. The added income can help provide peace of mind, so you're not rushing into retirement before you're ready.

Healthcare coverage

If one spouse has access to employer-sponsored healthcare, continuing to work could mean keeping coverage for both of you. This can be especially important if the younger spouse isn't yet eligible for Medicare. Staggering your retirements might save you substantial healthcare costs and may provide better coverage during a potentially vulnerable time, such as dealing with a major medical procedure or a chronic health condition.

Maximizing Social Security benefits

Postponing your claim allows you to secure a higher monthly benefit, which can greatly enhance your long-term economic security. For example, Social Security benefits increase by about 8% for each year you delay claiming after full retirement age, up until age 70.[1] With one spouse still earning an income, you may be able to delay these benefits, creating a stronger foundation in the years ahead.

Personal readiness

Retirement is a significant life transition, and it's natural for each person to be ready at a different time. Staggering your retirements can allow each of you to retire on your own terms, reducing the likelihood of mismatched expectations.

As you and your spouse consider your retirement timeline, it's vital to have an open dialogue about your plans and goals. Aligning your retirement strategy can help you both navigate this new phase of life with confidence.

If you have questions about how staggering your retirements could shape your future, don't hesitate to reach out. Together, we can craft a retirement strategy that fits both your needs.

[1] https://www.ssa.gov/benefits/retirement/planner/delayret.html