

# Captain's Log

Guiding Your Financial Journey



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**62%**

Share of Americans who said AI will have a major impact on workers generally in the next 20 years. Only 28% believed it will have a major impact on them personally.

Source: Pew Research Center, 2023

## What Real People Think About Artificial Intelligence

When U.S. adults were asked about the expanding presence of artificial intelligence (AI) technology in daily life, 38% said they were more concerned than excited, while just 15% were more excited. Many people were still on the fence, as 46% felt equally concerned and excited about the life-changing potential of AI.

Among those who were more concerned, percentage who said the following was the main reason



Source: Pew Research Center, 2022–2023

# New Medicare Rules Tackle Prescription Drug Prices

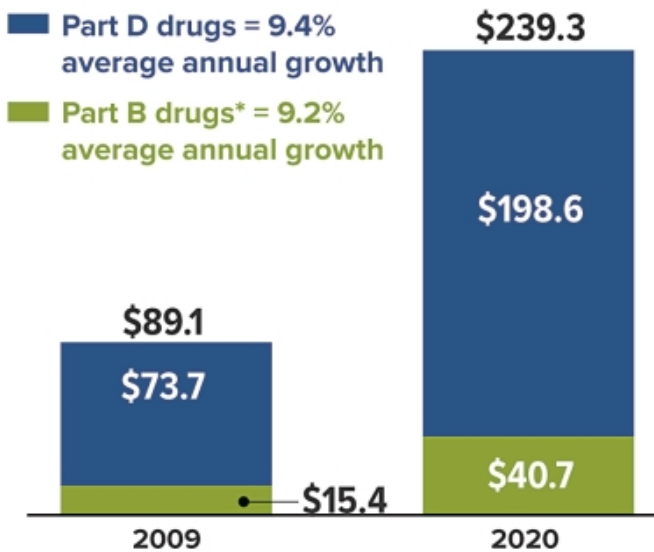
The Inflation Reduction Act of 2022 included provisions intended to lower prescription drug costs for Medicare enrollees and slow drug spending by the federal government. According to an estimate by the Congressional Budget Office, the law's drug pricing reforms could reduce the federal budget deficit by \$237 billion over 10 years (2022 to 2031).<sup>1</sup>

Here's an overview of the changes to the Medicare program — which covers 64 million seniors and people with disabilities — and timelines for when they take effect.

## Drug Price Negotiation

For the first time, the federal government will negotiate lower prices for some of the highest-cost drugs covered under Medicare Part B and Part D. The first 10 drugs selected for the negotiation program were announced in August of 2023. The negotiated "maximum fair prices" for the initial 10 drugs are to be published by September 1, 2024, and go into effect starting January 1, 2026. Up to 15 drugs will be subject to negotiation each year for 2027 and 2028, and up to 20 more drugs for each year after that.<sup>2</sup>

## Rising Medicare spending on drugs (in billions) between 2009 and 2020



\*Typically administered by a health professional in a hospital or another medical facility

Source: MedPAC Data Book, July 2022

## Inflation Rebates

By one estimate, the list prices of about half of all drugs covered by Medicare between 2019 and 2020 rose faster than inflation.<sup>3</sup> To discourage this practice, manufacturers of drugs covered under Medicare Part B and Part D will be required to pay rebates to the federal government if price increases for brand-name

drugs without generic or biosimilar competition exceed an inflation-adjusted benchmark (beginning in 2023). Medicaid, a federal program that provides health coverage for low-income Americans of all ages, already receives similar inflationary rebates.

## Redesigned Part D Benefits

The new law also modifies the design of Medicare's benefits and shifts liabilities so that Part D insurance plans will pay a larger share of the program's drug costs, while enrollees and the government pay less.

Under the 2023 Medicare Part D standard benefit, enrollees pay a \$505 deductible and 25% of all drug costs up to the catastrophic threshold, and then a 5% coinsurance (above \$11,206 in total costs or \$7,400 in out-of-pocket costs). But there is currently no limit on the total amount that beneficiaries might have to pay out of pocket if high-cost drugs are needed.

Starting in 2024, the 5% coinsurance requirement for Part D prescription drugs in the catastrophic phase is eliminated, which effectively caps enrollees' out-of-pocket drug costs at about \$3,250. A hard cap of \$2,000 will apply to out-of-pocket costs for Part D prescription drugs in 2025 and beyond (adjusted for inflation). Annual premium increases will also be limited to no more than 6%.<sup>4</sup>

## Insulin Cost-Sharing Limits

Starting in 2023, deductibles will not apply to covered insulin products under Medicare Part D or Part B for insulin furnished through durable medical equipment. Also, the applicable copayment amount for covered insulin products will be capped at \$35 for a one-month supply.

Medicare enrollees who live with a chronic disease like diabetes or face any illness that requires treatment with high-cost specialty drugs (such as cancer or multiple sclerosis) could see significant savings in the coming years thanks to these changes. Still, younger individuals who are uninsured or have private insurance plans with high deductibles could continue to feel financial pain from rising drug costs — with one notable exception.

Three major drugmakers have announced deep price cuts of at least 70% for older forms of insulin. These decisions may have been influenced by public backlash, new competition, and changing market dynamics, along with the threat of financial penalties soon to be imposed by Medicaid because drug prices were raised faster than the rate of inflation.<sup>5</sup>

1) Congressional Budget Office, 2023

2) U.S. Department of Health and Human Services, 2023

3–4) Kaiser Family Foundation, 2023

5) *USA Today*, March 16, 2023

# Four Key Objectives of a Sound Retirement Plan

A sound retirement plan should be based on your particular circumstances. No one strategy is suitable for everyone. Once you're retired, your income plan should strive to address four basic objectives: earn a reasonable rate of return, manage the risk of loss, maintain a source of sustainable and predictable income, and reduce the impact of taxes.

## Earn a Reasonable Rate of Return

Your retirement savings portfolio will likely be used to provide at least a portion of your income throughout retirement. The overall goal is to maintain an amount that produces the necessary income each year. This requires accounting for the rising costs of goods and services (including health-care expenses); identifying your budgetary needs and wants; estimating how long you'll expect retirement to last; and factoring in Social Security and other income sources. It also requires estimating a rate of return you'll need to earn on your portfolio and then putting together an investment strategy to pursue that target rate.

If you have enough savings to meet your retirement needs, you'll want to maintain that level of savings throughout your retirement years. That's why it's important to strive for a realistic rate of return on those savings. Of course, determining a reasonable rate of return depends on your individual circumstances and goals.

## Manage Risk of Loss

If you have sufficient savings to meet your retirement needs and goals, you'll want to protect those savings and reduce the risk of loss due to sudden market corrections and volatility. The goal is to reduce investment risk and preserve savings. A reduction in savings due to a market downturn could require you to sacrifice important retirement goals and reduce retirement income.

Prior to retirement, you have more time to recover from market losses. However, once retired, your time frame for recovery is much shorter. For example, if you had retirement savings of \$500,000 and lost 25% due to market volatility, your savings would be reduced to \$375,000. You would have to earn a rate of return of more than 33% in order to get back to \$500,000. That could take plenty of time to achieve.

## Maintain a Sustainable and Predictable Income

During our working years, most of us are used to receiving a steady income. However, once we retire, the income we got from work is no longer there, even though that's what we've been accustomed to. So it's important to create a sustainable, dependable, income stream in retirement to replace the income we received during our working years. While you may receive Social Security retirement benefits, it's unlikely

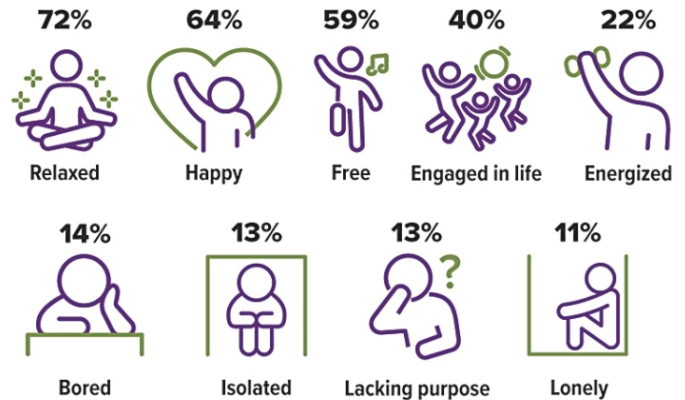
that you can maintain your desired lifestyle in retirement on just Social Security. In addition, defined-benefit pension plans are not as prevalent or available as they once may have been. Most employers don't offer pension plans, placing the burden on us to find our own sources of retirement income.

Maintaining a sustainable income in retirement is important for many reasons. You'll want sufficient income to meet your retirement expenses. It is also important that your income is not negatively impacted by downturns in the market. And you'll want your income to last as long as you do.

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## A Few Words About Retirement

In a recent survey, retirees ages 40 to 74 were asked to choose from a list of words and short phrases to describe their feelings about retirement. The good news is that most had positive feelings.



Source: AARP, 2022 (multiple responses allowed)

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## Reduce the Impact of Taxes on Retirement Income

Taxes can cut into your retirement income if you don't plan properly. Many of us think our tax rate will be lower in retirement compared to our working years, but that is often not the case. For instance, we may no longer have all of the tax deductions in retirement that we had while working. In addition, taxes may increase in the future, potentially taking a bigger chunk out of your retirement income. So it's important to create a tax-efficient retirement.

Your retirement plan should be suited to your particular situation. However, these four objectives are often part of a sound retirement plan. A financial professional may be able to help you to earn a reasonable rate of return, manage risk of loss, create and maintain predictable retirement income, and reduce the impact of taxes on that income. There is no guarantee that working with a financial professional will improve investment results.

# You've Received an Inheritance, Now What?

If you've recently received an inheritance, you may be facing many important decisions. Receiving an inheritance might promote spending without planning, but don't make any hasty decisions. Here are some suggestions that could help you manage your inheritance.

## Identify a Team of Trusted Professionals

Tax laws can be complicated, so you might want to consult with professionals who are familiar with assets that transfer at death. These professionals may include an attorney, an accountant, and a financial and/or insurance professional.

## Consider Tax Consequences

While you might not owe income taxes on the assets you inherit, your income tax liability may eventually increase, particularly if the assets you inherit generate taxable income. For instance, distributions you receive from inherited tax-qualified plans such as 401(k)s or IRAs will likely increase your taxable income.

Also, your inheritance may increase the size of your estate to the point where it could be subject to state and/or federal transfer (estate) taxes at your death. You might need to consider ways to help reduce these potential taxes.

## How You Receive Your Inheritance Makes a Difference

Your inheritance may be received through a trust, in which case you'll receive distributions according to the terms of the trust. You might not have total control over your inheritance as you would if you inherited the assets outright. If you inherit assets through a trust, it's important that you familiarize yourself with the trust document and the terms under which you are to receive trust distributions.

## Develop a Financial Plan

Consider your future needs and how long you want your wealth to last. It's a good idea to take some time after inheriting money to formulate a financial plan. You'll want to consider your current lifestyle and your future needs, then formulate a financial strategy to meet short- and long-term goals.

## Evaluate Your Estate Plan

Depending on the value of your inheritance, it may be appropriate to re-evaluate your estate plan. Estate planning involves conserving your money and putting it to work so that it best fulfills your goals. It also means helping reduce your exposure to potential taxes and possibly creating a comfortable financial future for your family and other intended beneficiaries.

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