What the Affordable Care Act means for you

The Supreme Court’s decision on June 28 to uphold the majority of the Affordable Care Act has been much in the news, and many people are wondering what it means for them.

The Act, which requires most U.S. citizens and legal residents to have health insurance, has financial implications even for those who already have insurance. Some people may be surprised to learn that these implications go beyond healthcare costs and even tax burdens, creating ripple effects for investments and retirement savings. Here are a few ways that the Affordable Care Act might affect you.

Does the Affordable Care Act affect my flexible spending account?
Beginning in 2013, individuals cannot contribute more than $2,500 to a healthcare flexible spending account (FSA). There is also legislation in Congress that would eliminate the current “use-it-or-lose-it” provisions of healthcare FSAs, but the chance of enactment is uncertain.

Can I still deduct unreimbursed medical expenses?
You may be able to deduct less expenses than previously. For tax years beginning in 2013, the threshold for deducting unreimbursed medical expenses on Schedule A increases to 10% of a taxpayer’s adjusted gross income. For taxpayers over the age of 65, the threshold remains at 7.5% of adjusted gross income (through 2016).

Will my Medicare payroll tax increase?
High-income earners will see an increase in their Medicare payroll tax beginning next year. Taxpayers will pay 2.35% of wages over $200,000 for individuals and $250,000 for couples. The current rate of 1.45% will still apply to wages below these levels.

Will I have to pay any new taxes due to the Affordable Care Act?
In some cases, yes. Individuals will be subject to a 3.8% surtax on net investment income or their annual earnings over a certain threshold amount. The surtax will be imposed on the lesser of:

- Net investment income for the taxable year (i.e., the sum of gross investment income over allocable investment expenses). For purposes of this surtax, investment income includes interest, dividends, capital gains, annuities, rents and royalties. Or,

- The excess, if any, of modified adjusted gross income (MAGI)\(^1\) over the annual threshold amount ($200,000 per year for individuals or $250,000 for married couples).

\textbf{Example:} A married couple filing jointly in 2013 with $325,000 of MAGI — $100,000 of which is net investment income — will pay the 3.8% surtax on $75,000 (net investment income that exceeded the applicable $250,000 threshold, i.e., $325,000 - $250,000). The additional 2013 federal tax liability for this married couple could be about $2,850.

\textbf{Note:} If the MAGI is less than or equal to the threshold amount, no surtax will be imposed. If, however, the MAGI is greater than the threshold amount, the surtax is 3.8% of the lesser of net investment income or the difference between MAGI and the threshold amount.
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The surtax liability is determined on income before any tax deductions are considered. Therefore, many individuals who have a large amount of deductions could be in the lowest tax bracket and still have investment income that is subject to the surtax.

How does the Affordable Care Act affect trusts and estates?
In addition to individuals, for trusts and estates, the 3.8% surtax will be imposed on the lesser of:

- The undistributed net investment income for the year. Or,
- The excess, if any, of the adjusted gross income for the year over the highest trust income tax bracket for the year ($11,650 in 2012).

If I am a high-income earner, how does the surtax affect my retirement investments?
The 3.8% surtax does not apply to distributions from IRAs, Roth IRAs, and other qualified plans. In addition, contributions to these plans provide tax-deferred growth opportunities. Therefore, for tax years 2013 and later, individuals should consider maximizing contributions to IRAs, 401(k) plans, 403(b) plans and 457 plans. However, required minimum distributions for those over age 70½, as well as Roth conversion income, will increase MAGI as those distributions are considered ordinary income.

Income from tax-exempt and tax-deferred nonqualified vehicles like municipal bonds, tax-deferred nonqualified annuities, life insurance and nonqualified deferred compensation are not included in investment income. Therefore, investments in these vehicles will help avoid the surtax.

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Threshold Amount</th>
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</thead>
<tbody>
<tr>
<td>Married filing jointly</td>
<td>$250,000</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>$125,000</td>
</tr>
<tr>
<td>All other single taxpayers</td>
<td>$200,000</td>
</tr>
<tr>
<td>Trusts and estates</td>
<td>Beginning at the top bracket which is $11,650 in 2012</td>
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</tbody>
</table>

1 MAGI is the sum of adjusted gross income plus the net foreign income exclusion amount.

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