Income Inequality
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Much has been written recently regarding income inequality in the United States. The discussion often becomes bogged down on the wisdom and practicality of regulating the factors that can lead to differing income levels including labor supply and demand, talent, training, ambition and luck.

I learned a surprising lesson on this topic while assisting a client. We worked for three hours via phone and internet to enroll her in a health insurance policy through the Access Health Connecticut website after she received a notice that her current policy was being terminated.

While helping the client navigate the website, it became clear that the financial questions used to determine eligibility for a subsidy were only related to income rather than assets or net worth. Later, an online chat session with Alicia a representative from the federal health website confirmed this finding.

After our meeting, I spent more time on the Connecticut website with two hypothetical couples living in New London County. The first is a young couple, both age 30, with a newly formed household jointly earning $65,000, with a total of $500 in the bank and no other investments or property besides their house with a mortgage.

The second couple is entering retirement this month at age 59. They own a primary residence valued at $750,000 and a vacation property worth $300,000 and have no debt, and have $2 million in an IRA, $1 million in a taxable investment account with stocks, and $1 million in cash at a local bank.

How do each of these families fare when purchasing health insurance?

Let’s start with our retirees. Planning for the period between early retirement and age 65, the Medicare eligibility age, has historically been a challenge. The new health care law helps solve that problem because anyone can apply for coverage, even if they have pre-existing health conditions.

Our retirees can benefit even more if they employ prudent planning. Assuming they want to spend $100,000 per year, how should they plan their sources of income? For the first five years of retirement, they should withdraw their income needs from the cash in the bank. Why? The withdrawals will not generate taxable income. Only the interest on the cash sitting in the account is taxed, and at today’s low rates, that interest is only about $5,000. If they keep the dividends and capital gains in check in the taxable stock account, they could limit the income to another $25,000. That gives them taxable income of only $30,000, yet they are spending $100,000. They can leave the IRA to grow until they tap it at age 65.

By keeping their taxable income low, the retirees can obtain a health insurance policy that covers both of them for only $143.40 per month. This plan has a $1,000 deductible and a $4,500 maximum out-of-pocket expense. Because of their low taxable income, they would get a monthly subsidy of $1,194.48.

Once they turn 65 and are eligible for Medicare, then they draw from their IRA.

How did our new family fare on the health exchange? Not so well. The plan closest to their newly retired neighbors has a deductible of $2,000 and a $6,000 maximum out-of-pocket expense. And the premium is a whopping $676.36 per month.

The youngsters have no way to manipulate their income because it all is derived from wages for their labor. Their newly retired neighbors, on the other hand, receive subsidies over the five years until Medicare enrollment of about $71,668. That's enough to purchase a brand new Cadillac Escalade SUV. If they're good neighbors, maybe they'll take the youngsters for a ride.

Is this fair? I'll leave that to you to decide. But unlike most other causes of income inequality, this one was brought about by an Act of Congress.

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