ClientLine®

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PAY HEALTHCARE COSTS WITH PRE-TAX DOLLARS

We all know health insurance costs are growing, but do you realize by how much? According to the Peterson-Kaiser Health Tracker, healthcare costs rose 21.6% while general inflation grew 17.3% since the end of 2007. With no end to rising healthcare costs in sight, Health Savings Accounts (HSAs) can help mitigate some of the pain.

BY THE NUMBERS

How expensive is expensive? In 2017, employer-provided family healthcare coverage averaged $18,764. Beyond premiums, healthcare costs that include deductibles, coinsurance and co-pays can run thousands of dollars more each year.

In retirement, rising costs can be devastating if you don't have a plan to keep pace. One survey of such costs estimates an average couple retiring at age 65 in 2018 will need $280,000 in today's dollars for medical expenses in retirement. Clearly, retirees will feel the squeeze.

TRIPLE TAX-FREE

An HSA can help lessen the pain of healthcare costs. You make contributions to an HSA pre-tax. Earnings potentially build tax-deferred and withdrawals made for qualified medical expenses are tax-free.

In effect, an HSA is triple tax-free. Qualified expenses include deductibles, coinsurance and other out-of-pocket costs.

You need a high deductible health plan (HDHP) to qualify for an HSA (see adjoining article for limits). While you'll owe a penalty and income tax on the amount of HSA withdrawals used for nonqualified expenses before age 65, you can take penalty-free withdrawals for any reason once reaching age 65 and pay tax on the amount of nonqualified distributions.

TAKE ADVANTAGE

Many employers contribute to or match a portion of employees' HSA contributions, so make sure you take advantage of this if it applies to you. Also know that you can't have a medical Flexible Savings Account (FSA) with an HSA, but you can have a special FSA that pays for dental and eye care.

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2019 High Deductible Health Plan Limits

Do you own a business and want to offer a Health Savings Account to employees? Here are a few things to know.

LIMITS

In 2019, a high deductible health plan must have an annual deductible of at least $1,350 for self-only coverage or $2,700 for family coverage. Annual out-of-pocket expenses may not exceed $6,750 for self-only coverage or $13,500 for family coverage in 2019, up from $6,650 and $13,300 respectively this year. In 2019, you can contribute up to $7,000 to an HSA with family coverage and $3,500 with self-only coverage. In 2018, these limits were $6,900 and $3,450 respectively.

EMPLOYER ADVANTAGES

HSAs must be coupled with high deductible health plans, which may cost employers less than more generous plans. As the plan sponsor, you choose whether or not the business also contributes to the HSA. Talk to your advisor to learn more.

HOT NEW EMPLOYEE BENEFIT

This is the time of year when businesses roll out new employee benefits and fine-tune existing ones as part of open enrollment. One of the most popular benefits involves student loan repayment for employees. Here's what you need to know about it.

RISING COLLEGE DEBT

It's not surprising that the millennial workforce is interested in a student loan repayment program, as higher education debt has reached all-time highs. The Consumer Financial Protection Bureau (CFPB) found that outstanding student debt tripled to $1.4 trillion from 2008 to 2017. As a result, the CFPB believes employer-sponsored third-party student loan repayment assistance programs will grow quickly in the future.

These loan repayment benefits are gaining a lot of interest from Millennials – your employees and job applicants. When unemployment is near an all-time low and competition for the best talent is high, it makes sense to explore the possibility of adding this repayment benefit.

HOW IT WORKS

Employers have the flexibility to decide how much to give in monthly repayment benefits. Working with an administrative provider, the company can direct its loan repayment contributions straight to employees' loans.

The plan sponsor may also offer advice to employees to help them pay off their loans more quickly and to those contemplating loans for college-age children. Some may even provide referrals to student loan refinancers, who may offer lower interest rates on existing debt.

TAX TREATMENT

Currently, the IRS considers this benefit compensation, which means employers must also pay payroll tax on the amount. The benefit is also taxable to employees. While Congress talks about making this benefit more tax-advantaged, you should talk to your tax advisor to learn more.

Client PROFILE ••••

Marie is a fulltime employee for a furniture maker, and she also does freelance design for homes and businesses. Because she owns a home and pays taxes in a high-tax state, she wonders if she is withholding enough money after the new federal tax law put a limit on deductions.

For a definitive answer, Marie should talk to her tax professional, who will not only identify how much Marie will owe in 2018 taxes, but advise her how and when to prepay the correct amount. Possible solutions might include requesting that her employer withhold more from her pay or making larger quarterly tax payments (as a freelance designer).

Another way Marie can pay a little less in taxes is to explore putting more away into tax-advantaged vehicles such as a 401(k) plan or Simplified Employee Pension (SEP-IRA). Both retirement accounts typically offer high annual contribution limits, and balances potentially grow tax-deferred. Beware, though, of some jurisdictions that will accept property tax payment as a tax-deferred charitable contribution. The IRS has not approved this.

Client Profile is based on a hypothetical situation. The solutions discussed here may or may not be appropriate for you.

HOW MUCH IS ENOUGH?

How much will you need in retirement? The problem with this question is there is no one-size-fits-all answer. Your number will depend on many factors, including the following:

- **YOUR ADDRESS.** The two coasts are generally among the most expensive places to live, with big cities like New York, Chicago and San Francisco among the priciest.
- **YOUR TAXES.** State and local taxes can take a chunk of your retirement income, even after the federal government takes its share. Some higher-tax states, however, exempt some retirement income from taxes.
- **YOUR HEALTH.** The healthcare bill for a couple from age 65 until death can exceed six figures, even with insurance. Make sure you have the health insurance you might need.
- **YOUR TRAVEL.** Most retirees begin to travel less as they reach age 75 to 80. Before then, how much you plan to travel before settling down and how expensive that travel is can have a big impact on your retirement savings.

HOW TO DRAW RETIREMENT INCOME

When you retire, you might draw income from a variety of sources. Which come first and how will taxes play a part? Here's a look:

TAX-FREE INCOME

If you contributed to a Roth IRA (or Roth 401(k) plan), your forward thinking will result in a delightful retirement reality – tax-free income. If you expect you'll tap all of your retirement income sources, this may be your first choice when drawing income. This lets your other tax-deferred income continue to grow. If you have some wealth, you might tap your Roth last with the remainder going to heirs as a future financial legacy.

TAX-DEFERRED INCOME

Some experts recommend retirees let their tax-deferred investments continue to grow for as long as possible. Because of minimum distribution rules, this is typically until age 70½ when withdrawals must begin. Beware, however, of leaving so much for later that you trigger a higher tax bracket on eventual distributions.

TAXABLE INCOME

If you trade investments outside of a retirement account, own individual municipal bonds or bank CDs, or continue to work, you likely pay taxes annually. You might use all or a portion of taxable income early on, leaving other investments until later. Talk to your tax professional to learn more.

Q&A

Q **With job competition keen, I'm considering hiring someone I can train. Are there tax breaks for that?**

A Your business receives a tax deduction for educational assistance and training expenses given to employees. In addition, your business may receive the Work Opportunity Tax Credit if it hires someone who was long-term unemployed, receiving food stamps, is an ex-felon, a disabled veteran or other classifications of potential employees. The Work Opportunity Tax Credit is first figured on Form 5884 after requesting certification with IRS Form 8850, and then becomes a part of the general business credit claimed on Form 3800, General Business Credit. Talk to your tax professional to learn more.

Q **I am planning to sell my home and will move into a rental property. Will I owe taxes on my profit?**

A The answer depends on how much and for how long. A single person may exclude up to $250,000 of profit ($500,000 for couples filing jointly) on the sale of a primary residence. To qualify, you must have owned and lived in the home for at least two of the preceding five years. You can use this tax exclusion as many times as you want, but not within two years of each other.

ClientLine® SHORT BITS

> **FEWER AMERICANS RECEIVE GUARANTEED INCOME. –** Just as more Americans are entering their retirement years, the number of Americans who get guaranteed retirement income is shrinking. According to the IRS, the number of tax returns reporting pension or annuity income fell from 28.4 million in 2015 to 28.05 million in 2016, a 1.2% drop. Although the number of people receiving this income fell, total income from these sources increased 0.4%.

> **UNEMPLOYMENT IS DOWN, BUT HOURLY WAGES ARE UP.** As of May, the unemployment rate fell to a low 3.8%, as reported by the Bureau of Labor Statistics. May saw 223,000 new jobs, and average hourly earnings for all employees on private nonfarm payrolls rose by 8 cents to $26.92. Average hourly earnings since May 2017 increased by 71 cents, or 2.7%.

> **NEW MEDICARE CARDS. –** Starting in April, the Centers for Medicare & Medicaid Services (CMS) began rolling out new Medicare cards with unique numbers, replacing cards that used Social Security numbers as identifiers. This is expected to reduce the chances of identity theft. If you haven't received your card yet or have questions, contact Medicare at *1-800-MEDICARE (1-800-633-4227)*.

> **CREDIT FREEZE LAW BEGINS THIS MONTH. –** Starting September 22, you may obtain a free credit freeze, thanks to a new federal law. You'll also be able to unfreeze your credit at no charge, and put a freeze on a minor child's credit. Previously, states allowed credit reporting companies to charge customers for these services. A credit freeze can prevent identity thieves from opening new accounts in your name.