



# Focus on Financial Fitness

## *Maintaining Your Financial Health*

### Hidden Gem: HSAs in Retirement

#### Dolan Financial Services

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When saving for retirement, you're probably aware of the benefits of using tax-preferred accounts such as 401(k)s and IRAs. But you may not be aware of another type of tax-preferred account that may prove very useful,

not only during your working years but also in retirement: the health savings account (HSA).

#### HSA in a nutshell

An HSA is a tax-advantaged account that's paired with a high-deductible health plan (HDHP). You can't establish or contribute to an HSA unless you are enrolled in an HDHP. An HDHP provides "catastrophic" health coverage that pays benefits only after you've satisfied a high annual deductible. However, you can use funds from your HSA to pay for health expenses not covered by the HDHP.

Contributions to an HSA are generally either tax deductible if you contribute them directly, or excluded from income if made by your employer. HSAs typically offer several savings and investment options. Your employer will likely indicate which funds or investment options are available if you get your HSA through work. All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

Withdrawals from the HSA for qualified medical expenses are free of federal income tax. However, money you take out of your HSA for nonqualified expenses is subject to ordinary income taxes plus a 20% penalty, unless an exception applies.

#### Benefits of an HSA

An HSA can be a powerful savings tool. First, it may be the only type of account that allows for federal income tax-deductible or pre-tax contributions coupled with tax-free withdrawals. Depending upon the state, HSA contributions and earnings could be subject to state taxes. In addition, because there's no "use it or lose it" provision, funds roll over from year to year. And the account is yours, so you can keep it even if you change employers or lose your job.

#### HSA as a retirement tool

During your working years, if your health expenses are relatively low, you may be able to build up a significant balance in your HSA over time. You can even let your money grow until retirement, when your health expenses are likely to be greater.

In retirement, medical costs may prove to be one of your biggest expenses. Although you can't contribute to an HSA once you enroll in Medicare (it's not considered an HDHP), an HSA can help you pay for qualified medical expenses, allowing you to preserve your retirement accounts for other expenses (e.g., housing, food, entertainment, etc.). And an HSA may provide other benefits as well.

- An HSA can be used to pay for unreimbursed medical costs on a tax-free basis, including Medicare premiums (although not Medigap premiums) and long-term care insurance premiums, up to certain limits.
- You can repay yourself from your HSA for qualified medical expenses you incurred in prior years, as long as the expense was incurred after you established your HSA, you weren't reimbursed from another source, and you didn't claim the medical expense as an itemized deduction.
- And once you reach age 65, withdrawals for nonqualified expenses won't be subject to the 20% penalty. However, the withdrawal will be taxed as ordinary income, similar to a distribution from a 401(k) or traditional IRA.
- At your death, if your surviving spouse is the designated beneficiary of your HSA, it will be treated as your spouse's HSA.

HSAs aren't for everyone. If you have relatively high health expenses, especially within the first year or two of opening your account, you could deplete your HSA or even face a shortfall. In any case, be sure to review the features of your health insurance policy carefully. The cost and availability of an individual health insurance policy can depend on factors such as age, health, and the type and amount of insurance.

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## Tax Scams to Watch Out For



*It is important to remember that the IRS will never initiate contact with you by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media.*

While tax scams are especially prevalent during tax season, they can take place any time during the year. As a result, it's in your best interest to always be vigilant so you don't end up becoming the victim of a fraudulent tax scheme.

Here are some of the more common scams to watch out for.

### Phishing

Phishing scams usually involve unsolicited emails or fake websites that pose as legitimate IRS sites to convince you to provide personal or financial information. Once scam artists obtain this information, they use it to commit identity or financial theft.

It is important to remember that the IRS will never initiate contact with you by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media. If you get an email claiming to be from the IRS, don't respond or click any of the links; instead forward it to [phishing@irs.gov](mailto:phishing@irs.gov).

### Phone scams

Beware of callers claiming that they're from the IRS. They may be scam artists trying to steal your money or identity. This type of scam typically involves a call from someone claiming you owe money to the IRS or that you're entitled to a large refund. The calls may also show up as coming from the IRS on your Caller ID, be accompanied by fake emails that appear to be from the IRS, or involve follow-up calls from individuals saying they are from law enforcement. Sometimes these callers may threaten you with arrest, license revocation, or even deportation.

If you think you might owe back taxes, contact the IRS for assistance at [irs.gov](https://www.irs.gov). If you don't owe taxes and believe you have been the target of a phone scam, you should contact the [Treasury Inspector General](https://www.treasury.gov) and the [Federal Trade Commission](https://www.ftc.gov) to report the incident.

### Tax return preparer fraud

During tax season, some individuals and scam artists pose as legitimate tax preparers, often promising unreasonably large or inflated refunds. They try to take advantage of unsuspecting taxpayers by committing refund fraud or identity theft. It is important to choose a tax preparer carefully, since you are legally responsible for what's on your return, even if it's prepared by someone else.

A legitimate tax preparer will generally ask for proof of your income and eligibility for credits and deductions, sign the return as the preparer, enter the Preparer Tax Identification Number, and provide you with a copy of your return.

### Fake charities

Scam artists sometimes pose as a charitable organization in order to solicit donations from unsuspecting donors. Be wary of charities with names that are similar to more familiar or nationally known organizations, or that suddenly appear after a national disaster or tragedy. Before donating to a charity, make sure that it is legitimate. There are tools at [irs.gov](https://www.irs.gov) to assist you in checking out the status of a charitable organization, or you can visit [charitynavigator.org](https://www.charitynavigator.org) to find more information about a charity.

### Tax-related identity theft

Tax-related identity theft occurs when someone uses your Social Security number to claim a fraudulent tax refund. You may not even realize you've been the victim of identity theft until you file your tax return and discover that a return has already been filed using your Social Security number. Or the IRS may send you a letter indicating it has identified a suspicious return using your Social Security number. If you believe you have been the victim of tax-related identity theft, you should contact the IRS Identity Protection Specialized Unit at 800-908-4490 as soon as possible.

### Stay one step ahead

The best way to avoid becoming the victim of a tax scam is to stay one step ahead of the scam artists. Consider taking the following precautions to keep your personal and financial information private:

- Maintain strong passwords
- Consider using two-step authentication
- Keep an eye out for emails containing links or asking for personal information
- Avoid scam websites
- Don't answer calls when you don't recognize the phone number

Finally, if you are ever unsure whether you are the victim of a scam, remember to trust your instincts. If something sounds questionable or too good to be true, it probably is.



## Life Insurance with a Refund



**The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Optional riders are available for an additional fee and are subject to contractual terms, conditions, and limitations as outlined in the prospectus and may not benefit all investors.**

**The return of premium, as well as any other guarantees related to life insurance, are contingent on the claims-paying ability and financial strength of the issuer.**

**All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. There is no assurance that working with a financial professional will improve investment results.**

Comparatively speaking, of all the different types of life insurance available, term is usually the least expensive. Generally, term life insurance provides protection for a stated or defined period of time, usually from one year to 30 years. If you die during the coverage term, your beneficiary receives the death benefit from the policy. But what if you outlive the term? With return of premium (ROP) life insurance, you receive the return of all your premium payments at the end of the policy term if certain conditions are met.

### What is ROP?

Variations may apply, but generally ROP is term life insurance coverage for a specific number of years (term). The face amount of the policy, or death benefit, is paid to your beneficiaries if you die during the term. But unlike straight term, if you live longer than the term, all of your premiums are returned to you with ROP as long as the policy was in good standing and in force at the end of the term. Some insurers even pay back a prorated portion of your premium if you cancel the ROP term insurance before the end of the term. Also, the premium returned generally is not considered ordinary income, so you won't have to pay income taxes on the money you receive from the insurance company. (Please consult your tax adviser.)

### Some particulars

Unlike permanent cash value life insurance, ROP premiums generally do not earn interest or appreciate in value. Also, the premium returned usually does not include the return of added premium charges for substandard coverage (extra premium charged for poor health) or costs for certain policy riders (extra premium you pay for benefits added to the basic term policy, such as a disability rider).

The cost of ROP can be significantly greater than straight term insurance, depending on the issuer, age of the insured, amount of coverage (death benefit), and length of the term. But ROP almost always costs less than permanent life insurance with the same death benefit. While straight term insurance can be purchased for terms as short as one year, most ROP insurance is sold for terms of 10 years or longer.

### Is ROP right for you?

Before you buy life insurance, you should know how much insurance you need. Your need for insurance is based on numerous factors, some of which include your current age and income, your marital status, the number of incomes in your household, your number of dependents,

your long-term financial goals, the amount of your outstanding debt, your existing life insurance, and your other assets. You should also consider your overall financial, estate, and tax planning goals as part of your insurance needs evaluation.

Term insurance is appropriate for situations when there is a high need for insurance but not much cash flow to pay for it. For example, a young family with limited cash resources may have a great need for survivor income to provide for living expenses and education needs. Also, term insurance may be appropriate to cover needs for a limited period of time, such as coverage during your working years, your children's college years, or for the duration of a loan or mortgage.

Whether to consider ROP term insurance usually revolves around a few issues. Does the added cost of ROP fit into your budget? It's great to know you can get your money back if you outlive the term of your life insurance coverage, but there is a cost for that benefit. Also, if you die during the term of insurance coverage, your beneficiaries will receive the same death benefit from the ROP policy as they will from the less-expensive straight term.

Some financial professionals recommend that the best way to provide for your life insurance needs is to "buy term and invest the difference." This suggestion is based on the premise that you know how long you will need life insurance protection (until your mortgage is paid off, for example), and that you'll be able to get a better return on your savings from other investments. The same rationale may apply to ROP term insurance. Since your premiums do not earn interest while with the issuer, they likely will not keep up with inflation. So you may want to consider paying the lower premiums for straight term insurance and investing the difference to potentially accumulate more savings.

When choosing between these two alternatives, you may want to think about the amount of coverage you need, the amount of money you can afford to spend, and the length of time you need the coverage to continue. Your insurance professional can help you by providing information on straight term and ROP term life insurance, including their respective premium costs.





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Securities and Advisory Services offered through Commonwealth Financial Network®, member FINRA/SIPC, a Registered Investment Adviser. Fixed insurance products and services offered through CES Insurance Agency.

Commonwealth does not provide legal or tax advice. Please consult with a legal or tax professional regarding your individual situation.



## How can you lower the costs of owning a vehicle?

Vehicle expenses can take a big bite out of your budget. According to a AAA report, the average annual total cost of owning and operating a new vehicle in 2018 was \$8,849. Fortunately, you may be able to save money by reducing three costs.

**Depreciation:** The loss of a vehicle's value over time was the largest expense associated with buying a vehicle, according to the AAA report. Depreciation accounts for almost 40% of the cost of owning a new vehicle — on average, \$3,289. Some cars hold their value better than others, so it's important to consider resale value before you buy. Because depreciation lessens over time, buying a used vehicle or keeping a vehicle longer can help minimize the impact of depreciation.

**Insurance:** The average annual cost of full-coverage auto insurance was \$1,189. Premiums are based on many factors, including the vehicle make and model, and your location. Some vehicles may cost substantially more to insure because they are statistically more likely to be damaged in a crash, stolen, or have high repair costs. So when you're in the market for a

vehicle, find out how much the insurance will cost before you sign the paperwork.

You can often save money on your insurance premium if you're willing to accept a higher deductible. You may also want to review your policy annually with your insurer to make sure you're receiving all the discounts for which you are eligible, and have only the coverage you need.

**Maintenance and repairs:** With an average annual cost of \$1,231, maintaining and repairing your vehicle is a big line item expense in your budget. So before you buy or lease a vehicle, talk to a trusted mechanic who is familiar with the cost of parts and general repair issues for the makes and models you're considering, or look for reliability statistics online. Get written estimates before you have any repairs completed, and shop around. Hourly labor rates and parts costs may vary widely. And keep up with regular maintenance. It can pay off in the long term, not only by preventing costly repairs but by potentially increasing your vehicle's resale value.

Source: AAA *Your Driving Costs*, 2018 Edition. Average costs are based on driving 15,000 miles annually.



## Is a vehicle subscription service in your future?

Automakers and start-up companies are betting that today's generation of drivers will embrace a new model of temporary ownership called a vehicle subscription service.

A vehicle subscription service offers an alternative to buying or leasing. You don't have to sign a long-term contract or commit to just one vehicle. Once you join, you typically pay an all-inclusive monthly or sometimes weekly fee that covers the cost of using the vehicle you choose, including insurance, routine maintenance, roadside assistance, and a warranty. You then have the option of swapping out your vehicle periodically, depending on the terms of your subscription.

For example, perhaps you've been temporarily transferred to a new city and want a fuel-efficient car for the six months you're living there. Maybe you need a second car only during the summer when your child is home from college. Or you might want the flexibility to drive whichever vehicle suits your needs at the time — a luxury sedan for day-to-day driving, then a minivan for a family trip. If your needs change, you can return your vehicle and get

another, or end your subscription. Plans vary, but many subscription services require only a short one- to two-month minimum commitment, with the option to renew. Subscription services are often app-based, making it easy to find and swap vehicles, and your newest ride may be delivered to you via a concierge service.

Of course, flexibility and convenience come at a cost, which is often substantial, so if you are interested in subscribing to your next vehicle you'll need to carefully assess your options. Prices depend on the subscription service, the vehicle selected, and other factors such as mileage and extras. You may also be required to pay a sign-up fee.

Vehicle subscription services are evolving and are still not available everywhere. Many services are in the testing phase, and most have been launched primarily in major metropolitan markets such as Los Angeles, San Francisco, and New York, with a few offered in other cities. But vehicle subscription services are gaining traction, increasing the likelihood that they will someday be available in most areas.

