Insurance Care

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**INSURANCE CARE**

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Janice A Nieman is a Registered Health Underwriter and Certified Life Underwriter with over 30 years of experience in the insurance and financial service industry. She offers life, health, dental, disability, medicare supplement and long term care insurance with many well known providers. The purpose of this Newsletter is to provide information which may be useful to you or someone you know. Feel free to call regarding any questions or concerns.

**2019 SPRING NEWSLETTER**



# Hidden Gem: HSAs in Retirement


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.

# Key Retirement and Tax Numbers for 2019

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2019.

## Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,000 in compensation in 2019 (up from $18,500 in 2018); employees age 50 and older can defer up to an additional $6,000 in 2019 (the same as in 2018).
- Employees participating in a SIMPLE retirement plan can defer up to $13,000 in 2019 (up from $12,500 in 2018), and employees age 50 and older can defer up to an additional $3,000 in 2019 (the same as in 2018).

## IRAs

The combined annual limit on contributions to traditional and Roth IRAs increased to $6,000 in 2019 (up from $5,500 in 2018), with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

| | 2018 | 2019 |
|---|---|---|
| **Single/head of household (HOH)** | $63,000 - $73,000 | $64,000 - $74,000 |
| **Married filing jointly (MFJ)** | $101,000 - $121,000 | $103,000 - $123,000 |
| **Married filing separately (MFS)** | $0 - $10,000 | $0 - $10,000 |

***Note:*** *The 2019 phaseout range is $193,000 - $203,000 (up from $189,000 - $199,000 in 2018) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

| | 2018 | 2019 |
|---|---|---|
| **Single/HOH** | $120,000 - $135,000 | $122,000 - $137,000 |
| **MFJ** | $189,000 - $199,000 | $193,000 - $203,000 |
| **MFS** | $0 - $10,000 | $0 - $10,000 |

## Estate and gift tax

- The annual gift tax exclusion for 2019 is $15,000, the same as in 2018.
- The gift and estate tax basic exclusion amount for 2019 is $11,400,000, up from $11,180,000 in 2018.

## Kiddie tax

Under the kiddie tax rules, unearned income above $2,200 in 2019 (up from $2,100 in 2018) is taxed using the trust and estate income tax brackets. The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

## Standard deduction

| | 2018 | 2019 |
|---|---|---|
| **Single** | $12,000 | $12,200 |
| **HOH** | $18,000 | $18,350 |
| **MFJ** | $24,000 | $24,400 |
| **MFS** | $12,000 | $12,200 |

***Note:*** *The additional standard deduction amount for the blind or aged (age 65 or older) in 2019 is $1,650 (up from $1,600 in 2018) for single/HOH or $1,300 (the same as in 2018) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

## Alternative minimum tax (AMT)

| | 2018 | 2019 |
|---|---|---|
| **Maximum AMT exemption amount** | | |
| **Single/HOH** | $70,300 | $71,700 |
| **MFJ** | $109,400 | $111,700 |
| **MFS** | $54,700 | $55,850 |
| **Exemption phaseout threshold** | | |
| **Single/HOH** | $500,000 | $510,300 |
| **MFJ** | $1,000,000 | $1,020,600 |
| **MFS** | $500,000 | $510,300 |
| **26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount** | | |
| **MFS** | $95,550 | $97,400 |
| **All others** | $191,100 | $194,800 |
| *Alternative minimum taxable income | | |

# Quiz: How Much Have You Thought About Health and Health-Care Costs in Retirement?

***According to the 2018 Senior Report from America's Health Rankings, social isolation is associated with increased mortality, poor health status, and greater use of health-care resources. The risk of social isolation for seniors is highest in Mississippi and Louisiana and lowest in Utah and New Hampshire.***

When planning for retirement, it's important to consider a wide variety of factors. One of the most important is health and its associated costs. Thinking about your future health and the rising cost of health care can help you better plan for retirement in terms of both your finances and overall well-being. This quiz can help you assess your current knowledge of health and health-care costs in retirement.

## Questions

**1. Health-care costs typically rise faster than the rate of inflation.**

True.

False.

**2. You could need more than $500,000 just to cover health-care costs in retirement.**

True.

False.

**3. Medicare covers the costs of long-term care, as well as most other medical costs.**

True.

False.

**4. The southern, warmer states are generally the healthiest places for seniors to live.**

True.

False.

**5. If you're concerned about health-care costs in retirement, you can just delay your retirement in order to maintain your employer-sponsored health benefits.**

True.

False.

## Answers

**1. True.** The average inflation rate from 2010 to 2017 was less than 2%, while the average spending on prescriptions, doctors, and hospitals grew between 4% and 5%. From 1970 to 2017, annual per-capita out-of-pocket spending on health care grew from about $600 to approximately $1,100 (in 2017 dollars).[1]

**2. True.** In 2017, America's Health Rankings projected that a 45-year-old couple retiring in 20 years could need about $600,000 to cover their health-care costs, excluding the cost of long-term care. The same report projected that about 70% of those age 65 and older will need some form of long-term care services. And according to the Department of Health and Human Services, the average cost of a one-year stay in a nursing home (semi-private room) was $82,000 in 2016.[2]

**3. False.** Original Medicare Parts A and B help cover inpatient hospital care, physicians' visits, preventive care, certain laboratory and rehabilitative services such as physical therapy, and skilled nursing care and home health care that are not long term. Medicare Part D helps cover the cost of prescriptions (within certain guidelines and limits). Medicare does not cover several other costs, including long-term care, dental care, eye exams related to eye glasses, and hearing aids. Seniors may need to purchase additional insurance to cover these and other services not covered by Medicare.[3]

**4. False.** Interestingly, America's Health Rankings found that the five healthiest states for seniors were (1) Utah, (2) Hawaii, (3) New Hampshire, (4) Minnesota, and (5) Colorado.[4]

**5. Maybe true, maybe false.** Many people believe they will work well into their traditional retirement years, both to accumulate as large a nest egg as possible and to take advantage of employer-sponsored health benefits (if offered beyond Medicare age). While this is an admirable goal, you may not be able to control when you actually retire. In a 2018 retirement survey, nearly 70% of workers said they planned to work beyond age 65; 31% said they would retire at age 70 or older. But the reality is that nearly 70% of current retirees retired before age 65. Many of those individuals retired earlier than planned due to a health problem, disability, or other unforeseen hardship.[5]

The bottom line is that while it's hard, if not impossible, to predict your future health needs and health-care costs, it's important to work these considerations into your overall retirement planning strategies. Take steps now to keep yourself healthy — eat right, exercise, get enough sleep, and manage stress. And be sure to account for health-care expenses in your savings and investment strategies.

1 Consumer Price Index, Bureau of Labor Statistics, 2018, and Peterson-Kaiser Health System Tracker, 2018

2 Preparing for Health Care Costs in Retirement, America's Health Rankings, 2017, and LongTermCare.gov, 2018

3 Medicare.gov

4 Senior Report, America's Health Rankings, 2018

5 2018 Retirement Confidence Survey, Employee Benefit Research Institute

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## How can I get a tax break for child care?

More than 60% of children under age six in the United States have two parents in the workforce.[1] Many of these working parents must spend a burdensome share of their earnings on child care, especially if they don't have relatives who are willing and able to help out.

The following tax benefits may help you offset some of the costs paid for a nanny, babysitter, day care, preschool, or day camp, but only if the services are used so you can work.

### Child-care tax credit

Families with one qualifying child (typically age 12 or younger) can claim up to $3,000 per year in child-care expenses; those with two or more qualifying children have a $6,000 annual limit. The credit is worth 20% to 35% of eligible child-care expenses, depending on income. As income rises, the credit amount drops until it hits a minimum of 20% for households with $43,000 or more in adjusted gross income.

For example, families with one qualifying child can receive a credit of $600 to $1,050; those with two or more children can receive a credit of $1,200 to $2,100. A tax credit lowers a family's tax liability dollar for dollar.

### Dependent-care flexible spending account (FSA)

Higher-income families may realize a bigger tax benefit from an FSA if it is offered by an employer. Up to $5,000 a year can be set aside to cover eligible child-care costs for qualifying children, and this money is free of federal income tax and Social Security and Medicare taxes. You are not allowed to use pre-tax money from an FSA and take a credit for the same expenses. However, after spending $5,000 from an FSA, you may take a tax credit for up to $1,000 in additional child-care expenses if you have more than one child.

[1] Child Care Aware® of America, 2017

## How much does child care really cost?

Typical child-care fees vary widely by state, as do other living costs. But in all regions, the average annual cost of center-based care for one infant now exceeds the average amount of money families spend on food and transportation combined. Child-care costs for two children exceed the median cost of housing for homeowners with a mortgage in 35 states and the District of Columbia.