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Summer 2019

Are Health Savings Accounts Right for You?

By Darren Zagarola, CFP®, CPA, PFS

A Health Savings Account (HSA) is a tax-advantaged personal medical savings account that can be used for qualified healthcare expenses. They have been in existence since George W. Bush signed them into law in 2003 and have become a more significant part of medical expense planning for individuals, given the dramatic rise in health insurance costs.

Triple Tax Benefits

To be eligible to contribute to an HSA, you must be enrolled in a High Deductible Health Plan. HSAs provide triple tax benefits; the first being that contributions to the plans are made with pre-tax dollars through payroll deductions. Contributions are excluded from gross income and are not subject to federal (and most state) income tax. If you itemize deductions, after-tax contributions are allowed and would be deductible on your income tax return. In 2019, the contribution limit is $3,500 per year for an individual and $7,000 for a family. There is also a $1,000 "catch-up" contribution available to people over the age of 55. Individuals can contribute to an HSA past age 65, as long as they have not registered for Medicare.

The HSA was historically seen as a transactional account, funding current year medical expenses with tax-free contributions taken directly from one's paycheck. They were similar to Flexible Spending Accounts and Healthcare Reimbursement Accounts. However, they have developed into more of an investment vehicle—similar to a 401(k)—since the account balances can be rolled over year-to-year. Flexible Spending Accounts and Healthcare Reimbursement Accounts are use-it-or-lose-it accounts. This roll-over ability provides flexibility on how to fund future medical costs after retirement when you may not have income.

This leads us to the second tax benefit: contributions are invested, and the growth on the investment is tax-free. Withdrawals are not subject to tax if used for eligible medical expenses. Eligible expenses include a wide range of medical, dental, and mental health services and can include premiums for Medicare Parts A, B, and D.

The third benefit of the HSA is that there are no required minimum distributions from the account. Therefore, by using HSA monies to pay for future medical expenses, you may be able to reduce taxable withdrawals that would otherwise be made from your retirement accounts.

An additional (non-tax) benefit is portability. This means that even if you change employers or health insurance plans, or retire, the money in your HSA

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Important Changes in the Estate Planning Process

By Robert Epstein, ChFC®

Much has changed over the last several years pertaining to estate planning. It still remains an essential component of your comprehensive financial plan, so we've outlined some of the changes you should be aware of.

Basic Estate Planning Documents are as Important as Ever
The first thing to emphasize is that the basics of estate planning remain in place. Having up-to-date Wills, Durable Powers of Attorney for financial matters, Living Wills for medical emergencies, and beneficiary designations for your life insurance policies and retirement accounts are still crucial to planning for aging and death.

When a person dies without having a valid Will in place, his or her property passes to heirs by what is called "intestate succession," according to state law. In other words, if you don't have a Will, the state will make one for you. Intestate distribution of your assets can differ dramatically from what you would have wanted. Even if it is known what you intended, no exceptions are made where no valid Will exists. Nor are there any exceptions made based on need or special circumstances.

A Durable Power of Attorney is one of the most important documents you can have in place in the event you are unable to care for yourself. It acts as a permission slip, giving authority to a third party to carry out financial transactions on your behalf if you can no longer do them on your own. A Living Will (along with the designation of a health care representative) expresses your wishes for what kind of care you wish to receive in case of a severe illness. It also designates the person who will communicate with doctors on your behalf if you are unable to do so yourself.

Beneficiary designations, not provisions in your Will, govern the distribution of life insurance death benefits and retirement account assets. In addition to ensuring your assets go where you desire, it simplifies and shortens the process for your heirs to receive their inheritance.

Only a designated beneficiary — as opposed to the estate being the beneficiary — can use the life expectancy payout method for post-death distributions. This means that the distributions — and the taxes — can be "stretched" over a longer period of time.

All of these documents should be reviewed at least every 10 years to see if they still reflect your estate planning objectives and current regulations.

Estate Tax Exemption Amounts
One of the major changes in estate planning is the increase in the amount of assets that can be passed to your heirs exempt from estate taxation. Here are the Federal exemption amounts per spouse over the last couple of decades:

Year	Estate Value Exempt from Federal Taxation
1997	$ 600,000
2002	$ 1,000,000
2011	$ 5,000,000
2019	$ 11,400,000

Furthermore, the exemption is now "portable," meaning you can transfer any unused portion of your exemption to your spouse. For many people, this reduces the need to include Credit Shelter Trust provisions in their Wills for estate tax planning. The current law, however, is slated to end ("sunset") in 2025, with the exemption returning to $5.4 million, adjusted for inflation.

On the state level, New Jersey has eliminated the state estate tax, though an inheritance tax remains for assets being passed to non-lineal descendants (e.g. nephews, nieces, or non-relatives). New York and Connecticut have significantly increased their exemption amounts (New York is $5.74 million and Connecticut is $3.6 million), while Pennsylvania has an inheritance tax covering all assets, at a 4.5 percent rate for lineal descendants and 12–15 percent for other heirs.

As a consequence of the above, we recommend that you review your Wills to see if they include provisions known as "formula dispositions," which are typically defined by a formula expressed with reference to the federal or applicable state estate tax exemption amount, to determine if they are still appropriate. With a significantly increased federal estate tax exemption amount, a formula disposition could result in unanticipated tax and non-tax consequences. Therefore, we suggest you consult with your advisors to determine whether your estate planning documents contain any dispositions determined by a formula referring to an "exemption equivalent amount," "applicable credit amount," "unused GST exemption," or other dispositions that may require immediate attention to account for tax or other changes that have taken place since those documents were first executed.

Estate Planning for Digital Assets
Often overlooked is the changing digital reality of our lives. You may maintain online access to many significant financial assets and accounts. When it comes to your online identity, it's important to consider all email accounts and social media profiles,

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Why it's Important to Have a Financial Plan and Update it Annually

By Leo Chubinishvili, CFP®

Research by Charles Schwab shows that three in five Americans live paycheck to paycheck, and only one in four has a written financial plan.

Schwab's 2018 Modern Wealth Index scores participants between 1-100 based on their successful money management and investment habits. They consider the following factors:

1. Goal setting and financial planning
2. Saving and investing
3. Staying on track
4. Confidence in reaching their financial goals

The index found that those who plan have an average score of 68, compared to a score of 44 given to those who lack a financial plan. Simply put, this means you can improve your financial welfare by approximately 55 percent just by having a written financial plan.

What is a Financial Plan?
Let's start with an explanation. A financial plan is a comprehensive evaluation of an individual's current financial position as well as future projections detailing the steps needed to achieve one's objectives. To create a successful financial plan, you must do the following:

1. Evaluate your current financial state
2. Develop specific and measurable financial goals and objectives
3. Determine and evaluate courses of action and "what if" scenarios
4. Create an action plan and implement the necessary financial steps
5. Evaluate and monitor the plan

How a Financial Plan Helps You Achieve Your Dreams
Everyone has dreams; but most struggle to convert those dreams into realities. By having a clear picture of your current financial state, you can begin to identify areas of strength and weakness that exist in your personal financial life. This helps formulate substantive goals.

There are often various routes you can take to achieve your goals. By analyzing these options inside of a financial plan, you can make an educated decision about which one is right for you.

To implement your goals, you must stay disciplined. Whether you need to reduce your spending, increase your monthly savings, or be patient with your investment plan, discipline is what makes your plan successful.

Reevaluating and updating your plan annually are critical steps in the comprehensive financial planning process. By tracking your progress, you can determine if any changes are required. When updating your plan, it is an opportunity to share new life events (e.g., marriage, birth of a child, new job) and to set new goals. Reviewing your progress and refining your plan annually will drive your quality of life to new heights as you see yourself achieving your goals. This is an empowering experience that builds confidence and makes people happy.

As Antoine de Saint-Exupéry, the French author and aviator, once said, "A goal without a plan is just a wish." So, start developing that financial plan, update it annually, and turn your dreams into a reality. A qualified financial planner can help you identify your strengths and weakness, crystalize your goals, analyze all of your available options, help you determine the best course to get there, and monitor your progress to ensure success.

The more disciplined you can be, the greater your success. And like anything, over time, new behaviors become everyday habits. Once you start accomplishing your goals, you will gain confidence in the ongoing process and become excited to consistently set — and achieve — higher goals. Only then will you obtain true financial peace of mind.

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Health Saving Accounts *(Continued from Page 1)*

remains available to you for future qualified medical expenses.

A Few Disadvantages Worth Noting

HSAs are not for everyone. There are several disadvantages to these plans to be aware of.

Some HSAs charge fees. Find out if your plan charges per transaction, per month, or if you can get it waived by maintaining a minimum balance.

As the account owner, you are responsible for keeping receipts for every withdrawal to prove that all the money was used toward qualified medical expenses.

High Deductible Health Plans can place a greater financial burden on the patient if costly medical procedures are required since the plans have higher deductibles and therefore, greater out-of-pocket expenses. Thus, HSAs may not be the best option for those who expect to have significant healthcare expenses, as you will use the money in the year contributed and not benefit from the long-term tax-free growth.

It is important to remember that if you use the funds for non-qualified expenses, the distributions are taxable. Also, if you use the funds before age 65, the penalty is 20% of the distribution, in addition to the tax.

The Bottom Line on Health Savings Accounts

Generally, we consider HSAs to be an excellent planning vehicle to combat the rising cost of health care. The most effective way to leverage these accounts is to pay for current medical expenses from present cash flow while funding the HSA with the future in mind. If you can afford to do this, it will allow your HSA assets to grow tax-free for a longer period, providing you with a greater pool of funds to pay for future medical costs.

The more you understand how to use the accounts wisely, the greater the benefits are.

Estate Planning *(Continued from Page 2)*

which have become important ways of communicating in our daily lives. Therefore, it has become as important to develop a plan for digital assets as it is to create an estate plan for bank accounts and physical property like real estate. This includes making passwords accessible to the person or persons you wish to entrust with your legacy. Providing a password list to your Power of Attorney or executor is the fastest and best way for people to manage your accounts and wishes quickly, especially at a difficult and stressful time.

As more of our documents, photos, and musings are posted on social media, a branch of estate law has arisen that deals with the ownership of such assets after death. Technologies are emerging that allow you to gather your digital assets and assign an individual or individuals to manage them after you die. So, consider what you want to happen to your data, how accessible and enduring you want it to be, and how it should be protected. Your estate planning attorney can help you work through these issues.

The Importance of the "I.C.E." Folder

Successful estate planning includes having a way to communicate your wishes to your loved ones. This includes giving your spouse, significant other, or child easy access to your important documents in a securely stored location.

This objective may be achieved by establishing a digital vault that centralizes the storage of all important documents (including your passwords). This vault has been termed an "In Case of Emergency" (I.C.E.) folder, and is a more modern and efficient method than a safe deposit box.

Ask your advisor how we can help you set one up.

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