Schneider
WEALTH STRATEGIES

First Quarter 2019
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WEALTH MANAGEMENT REPORT

HSA Or FSA: Which Is Better For Medical Savings?

Health insurance deductibles and co-payments, plus uncovered items like your child's braces, can put a dent on your bank account.

That's why flexible spending and health savings accounts, where you put money away tax-free to pay for out-of-pocket health-care expenses, generally are good ideas. What's better, the saved money from an FSA and an HSA lowers your reported taxable income, just like contributing to a retirement account. Which is the best for you, though, an FSA or an HSA?

And if you take a new job, you can sign up within 30 days.

Most employers don't offer both an FSA and an HSA and, usually if they do, you can't get into both. If you have a choice, knowing the differences is important. Among other things, you can put more money into an HSA and roll it over into a new year. But an FSA lets you take money out even before you have contributed it.

Flexible spending accounts. For 2019, the maximum contribution you can make is $2,700. That's not a lot, but if your spouse has health

First let's look at how they are constructed. You can get into these health accounts during your employer's open enrollment period, which usually runs through December. You also can enroll if you have a "qualifying life event," such as a change in marital status, a new child, or the death of a spouse or dependent.

coverage, he or she can take out another FSA.

A big downside is the use-it-or-lose-it rule. Should you fail to spend all the money in your fund by year-end, you lose it. As a result, you have to estimate how much you'll need to

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Key Tariffs, Rates And Economic Facts To Note In Fearful Times

Tariffs, interest rates, and recession struck fear deep in the heart of investors as 2019 was beginning. A market crash, a world financial crisis, or something worse. Here are some facts to help you keep perspective in these fearful times.

Assuming a trade war with China, JP Morgan earlier this year concluded it would result in a $125 billion tariff on $500 billion worth of imports on Chinese goods, but shave U.S. economic growth in 2019 by just one-tenth of 1%, according to an October 8, 2018 by Bob Davis, a senior editor at *The Wall Street Journal*. Note that doesn't mean that a trade war is smart. It just means that the outcome may less scary than assumed.

Frightening headlines about Fed monetary policy have widely reported that, with the yield curve inverted, a recession is on the horizon. Actually, what the yield curve central bankers care about most — the one used to predict a recession — the 90-day Treasury vs. the 10-year- has not inverted.

No one can predict the next market turn and past performance is not a guarantee of the future of your investments. However, key economic fundamentals, like monthly orders by purchasing managers at large companies, were near a record high in the fourth quarter; real wage gains, have repeatedly broken record highs for three years, and the leading economic indicators are holding up well. These are not signs of a recession.

Please note, changes in tax and estate planning laws may occur at any time and could have a substantial impact upon each person's situation.
While we are familiar with the tax and estate planning provisions of the issues presented herein, as Financial Advisors of Cambridge Investment Research, Inc we are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

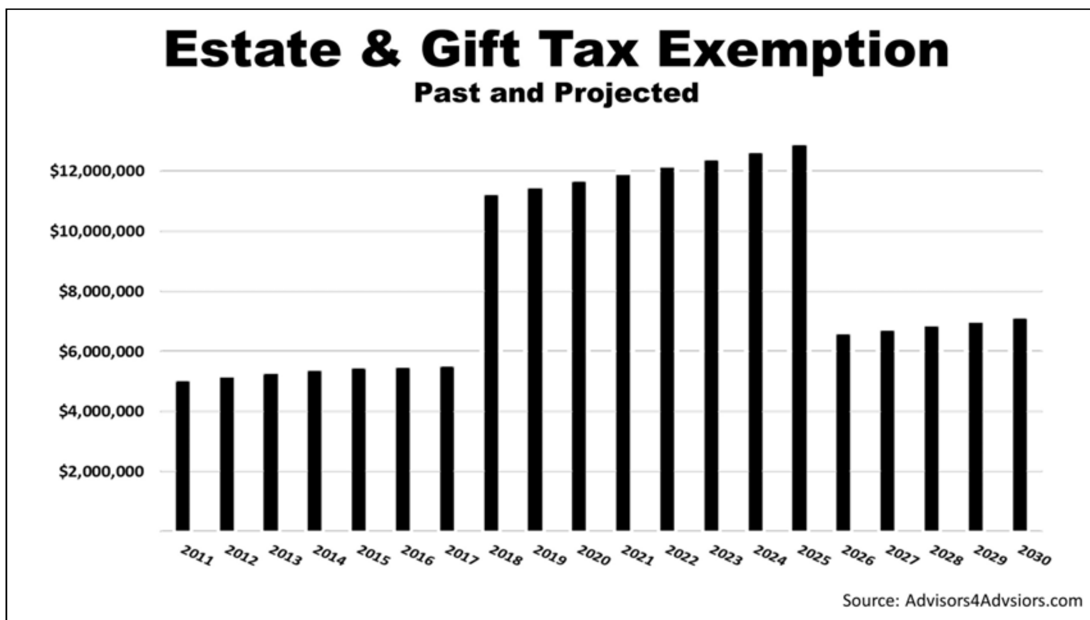
Be Prepared For Tax Policy To Swing Back

For business owners, professionals, and wealthy families, tax rules are about as favorable as they've been in decades, but the tax policy pendulum could swing back again. Be prepared to make some important financial decisions much sooner than had been expected.

For example, the lifetime tax exemption for gifts made in 2019 is $11,400,000, up from $11,180, 000 in 2018. It doubled over the $5.43 million in effect in 2017 and is scheduled to ratchet higher through 2025, as a result of the enactment of the Tax Cuts & Jobs Act (TCJA). In 2026, the exemption reverts back to the level in effect before the TCJA became effective in December 2018.

That means families should have many years before they would be forced to decide whether to make gifts in 2025 to maximize their exemptions from tax in passing their wealth to family members. The 2025 peak in the exemption amount forces a decision about whether to give assets to loved ones while you're still alive or hold onto your assets and give them away after you die. In 2025, you use the $12-million-plus exemption or lose it, and the exemption reverts back to a much lower amount in 2026 and beyond.

However, the tax policy pendulum — a politically charged issue — could swing in the other direction in the months ahead. Business owners, professionals, and other high-net worth individuals may need to make decisions about gifting assets much sooner. There is no assurance that you will have until the end of 2025 to make this important strategic decision about passing on your family wealth.



Point is, if tax policy changes, business owners, professionals and individuals benefiting from strategies enabled under the TCJA, may be forced to make decisions about income tax as well as estate and gift tax strategies much sooner than they might have expected. It's not an issue you want to fall behind on and will require personal and professional tax advice. ●

Paying Off A Mortgage And The New Tax Code

Among the most prized tax deductions to get trimmed by the Tax Cut And Jobs Act was the monthly mortgage interest. Should you pay off your mortgage, if your mortgage interest deduction is gone? The answer more often now may be "Yes," providing you can afford to retire the debt. If you can't afford that now, aim to do it as soon you can.

Due to a large increase in the standard deduction, fewer taxpayers qualify for the mortgage interest deduction. The standard deduction under the new tax law almost doubled and is now $12,200 for single filers and $24,400 for married couples. Only people with deductions of more than those amounts can itemize and deduct their mortgage interest.

Piling up that much to itemize, especially for couples, will be difficult. As a result, the Tax Policy Center estimates that only 20 million Americans will have itemized in 2018, as opposed to 46 million, had the tax law not changed.

Other changes in the law lessen the benefit of carrying the burden of a mortgage. There's now a $10,000 cap on deductions for state, local and property taxes. Before the law changed, the amount you could deduct was unlimited.

In addition, you are restricted from deducting interest on home equity loans if you use the debt for anything other than buying, building or upgrading a home. If you want to use the home equity loan for a tuition payment or to purchase a boat, Uncle Sam won't allow it anymore.

If you have deductions totaling more than the $12,200 and $24,400 thresholds, you can still itemize. In many cases, you may save more money by erasing your mortgage than you could earn in "risk-free" investments.

Here's the math. Say you have a $300,000 mortgage, which is about the average amount nationally, at a 4%

Five Documents At The Core Of An Estate Plan

Every estate plan is unique because of a particular family's circumstances. Still, most people share many primary objectives that may be reflected in five documents often found at the core of a plan.

If your current estate plan doesn't include these five items, you might need to fill the gaps. And if you don't yet have a comprehensive estate plan in place, it's probably time to make that a priority. Mortality can sneak up on anyone.

1. Financial power of attorney: A power of attorney is a legal document that authorizes another person to act on your behalf. A financial power of attorney enables the "attorney-in-fact"—the person specified to act for you—to conduct your financial affairs. Many states have a standard form for financial power of attorney.

Usually, the power of attorney is "durable," meaning that it remains in effect in the event you are incapacitated. But you might use a non-durable power of attorney for specific purposes, such as to have someone manage your portfolio temporarily. Keep in mind that a power of attorney is enforceable only when it has been established before its creator becomes incompetent.

2. Health care power of attorney: Like a financial power of attorney, this authorizes a designated person to act on your behalf in the event you're unable to make your own decisions—in this case, about your medical care. This goes further than a living will, which generally applies only if you're terminally ill or on life support, based on the prevailing state law.

Your attorney-in-fact for a health care power of attorney needs to be someone you can trust to act in your best interests. Typically, that would be a spouse, a child, or another close family member. But you'll also need to name contingent and successor agents.

3. Health care directives: Although there are several other kinds of health care directives that you might include in your estate plan, the most common version is a living will. Without it, family members may be left in a quandary about end-of-life decisions involving your care. This can lead to turmoil and questions could even end up being decided in court.

Often a health care power of attorney is coordinated with a living will, or the two may be combined in a single document. Some states have forms combining these elements and reflecting other personal choices such as whether to donate your organs.

4. Will: No matter how sophisticated your estate plan is, you'll likely circle back to the need for a will to tie everything together. A will can be used for a wide range of purposes, including (but not limited to):

- Dividing your assets and allocating them to your beneficiaries;
- Naming guardians for your children;
- Achieving estate tax benefits;
- Arranging gifts to charity;
- Creating trusts for your beneficiaries;
- Excluding certain family members from inheriting your assets;
- Avoiding a lengthy probate process; and
- Thwarting potential legal challenges.

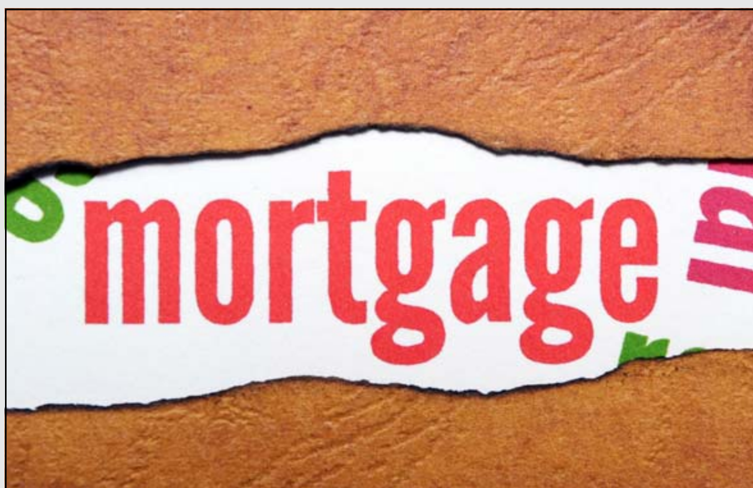
A will may refer to other documents in your estate plan. If you don't have a legally valid will and you die "intestate," your estate will be governed by the laws of the applicable state.

5. Revocable trusts: Finally, depending on what state you live in, your estate plan may include more revocable trusts, which let you change terms based on future events or preferences. Such trusts are commonly called living trusts—or, more technically—inter vivos trusts—because you create them while you are alive.

With a revocable living trust, you can transfer assets to the trust to be managed by a party you designate. The transferred assets aren't subject to probate.

Other kinds of trusts can also be created to complement the rest of your estate plan. These trusts might be designed to minimize potential state or federal estate taxes, as well as to protect assets from creditors or in the event of a divorce.

This list of estate planning basics can be a good starting place for many families. You'll need the help of an experienced attorney and other advisors to create a plan that fits your family's needs. ●



yearly interest rate, and are in the 30% percent marginal tax bracket - 24% federal and 6% state levies combined.

If you pay off the mortgage, you no longer have to pay roughly $12,000 annually in interest. When you did pay it, you received a tax deduction worth $3,600 - 30% of the mortgage interest. So that means, after the loan is retired, you saved $8,400. That beats the risk-free Treasury bond return. ●

Time Itemized Deductions To Reduce Taxes

You can't have your cake and eat it, too, but this tax planning strategy lets you have a tax break and repeat it, too.

An old tax tactic, bunching deductions, is used in an entirely new way to minimize your tax bill under the Tax Cuts and Jobs Act (TCJA). By planning to take the new enlarged standard deduction some years and bunching deductions in other years, you may save thousands of dollars in income taxes over two or three years.

The TCJA almost doubled the standard deduction to $12,200 for singles and $24,400 for couples filing jointly in 2019. Trouble is, if you take the standard deduction, you can't itemize other deductions. You no longer can lower your taxable income by itemizing deductions such as charitable donations, medical expenses, mortgage interest, and other miscellaneous expenses.

By bunching, you do both: This year, you take the enlarged standard deduction. For 2020, you don't. Instead you bunch your deductions and itemize them when you file your taxes for 2020. If your itemized deductions aren't higher than the standard deduction, you take the standard deduction again in 2020 and then itemize in 2021 tax year.

This strategy also helps overcome another downside of the TCJA: It capped deductions on property and state taxes at $10,000 annually. These breaks used to be unlimited, and in some high-tax states exceeded the standard deduction.

By planning to bunch two or three years of charitable donations and other deductions you can control into a single year, your itemized list of deductions every other year could exceed the $24,400 ($12,200 for singles) standard deduction.

For example, a married couple itemizes and claims the maximum property and state income tax deduction of $10,000. They also pay $8,000 in mortgage interest. They'd need to make more than $6,000 of charitable donations to surpass the $24,400 standard deduction threshold. The couple usually gives $4,000 to charity yearly, so they choose to make the gift by combining two years of donations into one tax year. As a result, they can itemize deductions one year and claim $26,000 in deductions. Next year, they take the $24,400 standard deduction.

Planning to benefit by bunching deductions depends on your expected income as well as the specific deductions you can control, but with a little clever planning, you can have your tax break and repeat it, too! ●

HSA Or FSA: Which Is Better?

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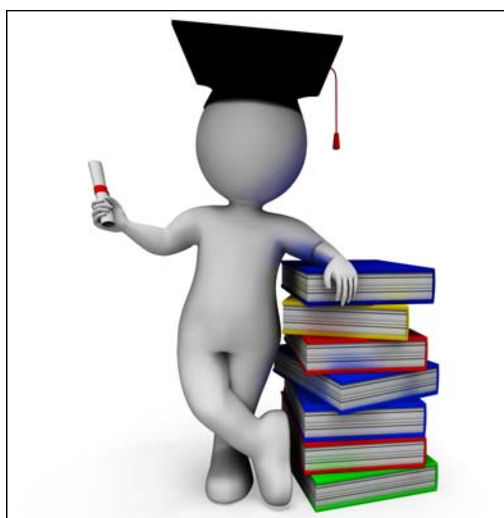
pay yourself in the coming year.

At least companies have the option of giving employees until March 15 to spend leftover money or even keep up to $500 for the next year. Many don't do that, though.

The good thing is that you can start spending the whole sum you designated for the year ahead on Jan. 1, even though your contributions are spread over the coming 12 months. Leave the job and you can't take the money with you, as you would with a retirement account—or an HSA.

Health savings accounts. The advantage here, of being able to sock away more money and not forfeiting the unused amount on Dec. 31, is considerable.



In 2019 a single person can save $3,500 in an HSA and a family can save $7,000. Further, if you're 55 and older, you can put in an extra $1,000 as a catch-up. In addition, self-employed people can create an HSA for themselves, but not an FSA.

But HSAs have their weaknesses. To set one up in 2019, your health plan needs to have a yearly deductible of $1,350 for an individual and $2,700 for a family. That's a bit steep.

Regardless, either plan can be a boon tax-wise. Utilizing FSAs and HSAs are best considered within a strategic tax plan, which is technical and depends on your personal circumstances. We're here to help with any questions. ●

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