The Edge

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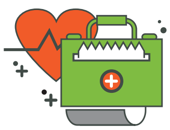
Features of a Health Savings Account



What drives the popularity of HSAs?

HSAs offer triple tax advantages

1	Contributions
	Contributions to tax accounts are pre-tax/tax deductible.
2	Growth
	Funds within HSAs grow tax free.
3	Withdrawals
	HSA withdrawals used for qualified medical expenses are not taxed.

Source: BNY Mellon/Pershing

Although U.S. health care may be a highly debated issue, there's little doubt that health savings accounts (HSAs) are a growing bright spot for the industry.

HSAs are tax-friendly savings and investment accounts created by the Medicare Act of 2003. The accounts allow holders with qualifying high deductible health plans (HDHP) to pay for eligible medical expenses. HSAs are individually owned, which means you take them with you when moving to another job or changing insurance carriers. In addition, you can shop for the HSA that gives you the best investment option and make it a part of your retirement strategy.

The accounts have grown in popularity over the past 15 years. As of 2016, 59 plans reported nearly 20.2 million HSA account holders.[1]

THE TAX ADVANTAGE

The biggest advantage of an HSA is that you contribute pretax income, the money grows tax-free, and you don't pay taxes when you withdraw, if it is used for eligible medical expenses. Because you're putting pretax money aside, it also lowers your overall taxable income. You or your employer can contribute money tax-free to your account up to the annual limit set by the IRS. For 2018, the limit is $3,450 for individuals and $6,850 for families.

HSAS FOR RETIREMENT SAVINGS

Think of your HSA as an investment. Some work as simple savings accounts and offer interest. Others let you invest money in mutual funds, just as you would in a 401(k) or IRA.[2]

Money in an HSA rolls over from year to year, which means if you don't have any medical expenses or if you can afford to pay them out of pocket, you can save your HSA as a medical insurance policy for the future. You can even designate a beneficiary who will receive the account at the time of your death.

If you use the account for nonmedical expenses and are under age 65, there is a 20% penalty associated with the expense. Once you turn 65, however, you can use it for nonmedical expenses without paying a penalty, but you will pay the income tax.[3]

If you're looking for an HSA or have any questions on how they work contact us and we can help.

[1] www.ahip.org, *2016 Survey of HSA Accounts.*
[2] money.usnews.com, *10 Ways to Maximize Your HSA.*
[3] www.forbes.com, *What if you use your health savings debit card for takeout?*

Tax services are not offered through, or supervised by The Lincoln Investment Companies.

You Have a Will. Do You Need a Trust?

If you plan to leave something behind for your heirs, it's important to give some thought as to how you will do it. There are several ways to direct the distribution of your assets:

- **Last will and testament** — This document describes how assets should be distributed upon your death. Wills pass through the court system and go through probate. The probate process legally establishes the validity of the will and determines the amount of taxes owed. Typically, attorney and court fees are paid from your estate, using assets that could otherwise go to your heirs. Probate can take months or years. In some cases, your family may need to petition the court to release funds to cover living expenses until probate is complete.[4]
- **Beneficiary designations** — Some assets pass outside a will and do not go through probate. Instead, they automatically pass to the beneficiary designated on the account. Proceeds from life insurance policies, retirement plans and pensions generally fall into this category.[5]
- **Joint ownership** — If property, automobiles and other assets are owned jointly, they generally pass outside the will and avoid probate. However, if both owners die at the same time, the assets may be subject to probate.[6]
- **A living trust** — When a trust is established, one person (the trustee) holds legal title to property for another person (the beneficiary). In some cases, you name yourself as the initial trustee and maintain control over any assets in the trust. The trust document should name future trustees and beneficiaries, as well as describe the trust property and the ways in which it should be distributed. A trust can help you avoid probate and may help reduce estate taxes.[7]

In general, the complexity of your situation will help determine if you should seek legal advice and which option is right for you.

[4] Nolo.com, *Probate FAQ.*

[5] Law.freeadvice.com, *Assets That Do Not Pass Under a Will.*

[6] Law.freeadvice.com, *How to Prevent Your Family's Assets From Being Frozen in Probate.*

[7] Legalzoom.com, *Living Trust.*

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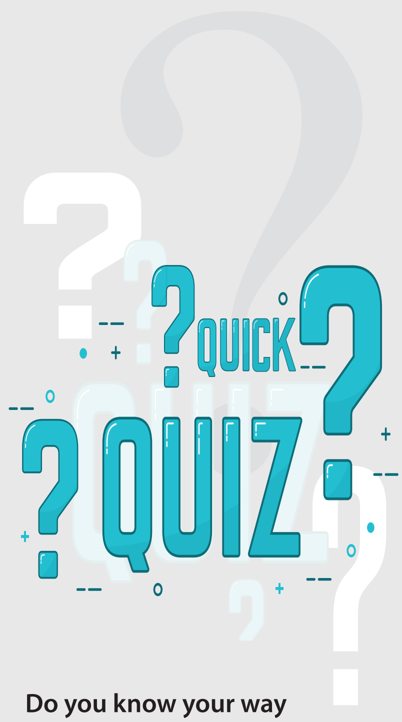

Do you know your way around probate, wills and trusts? Put yourself to the test:

1. Does a will or a beneficiary designation take precedence?
2. Does a will, a trust and/or a beneficiary designation help your heirs avoid probate?
3. If you don't have a will, who receives your assets?

Answers

1. Beneficiary designation takes precedence.
2. A trust and/or a beneficiary designation can help avoid probate.
3. State law will determine your heirs.

Source: Law.freeadvice.com, Who Gets My Property if There is No Will?

IM&R Team

INVESTMENT MANAGEMENT AND RESEARCH

Interview with Shashi Mehrotra, COO & CIO Legend Advisory

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Q. What are your thoughts about the markets so far in 2018?

A. Small business owners claim that taxes are too high and regulations cumbersome. Others complain that the market has been going up for so long, there hasn't been a 5%, a 10% or a 20% correction.

Out of the problems mentioned, all but one is solved. A normal correction provides buying opportunities, but the trick is to determine whether we just had a normal correction.

Bad news could be on the horizon due to potential catalysts. President Trump is working on tariffs because he says other countries are not fair to us. If you dig deeper, tariffs imposed on us versus tariffs imposed by us aren't significant. Kim Jong Un says he'll stop nuclear testing, but he's said that before. Moreover, he is cozy with China again. Currently, 47% of our trade deficit is with China, so over the short-term, there is plenty to disrupt the markets.[8]

Q. Are you concerned about the future of the markets?

A. Historically, real estate has been a household's main asset, representing the core of net worth. This isn't true this cycle, which is why we believe the next decade won't be as rewarding as the last. When you inspect the American household's net worth, the share of financial assets has continually risen over the last nine years and now exceeds their real estate ownership. In 1982, real estate was almost 30% of a household's net worth. At the end of 2017, real estate was about 24.3% of household and nonprofit organization assets, while equities represented 26%, much more than 17.4% in March 2009.[9]

Another concern is the deficit. With President Bush's proposed tax cuts in 2003, he believed deficits would decrease because the economy would self-sustain. That didn't happen then, and we expect a similar result now. Our national debt currently stands at about $20 trillion[10], and has the potential to cause some problems in the future.

> "The share of financial assets in American household's net worth has continually risen over the last nine years and now exceeds their real estate ownership."
>
> — Shashi Mehrotra, COO & CIO Legend Advisory

Q. What's your outlook for the next quarter?

A. Short-term, we expect volatility, but this market still has bullish bias. It's just that some investors have never seen equities go up when interest rates rise. If you look back to 1982-2000, one of the greatest bull markets, interest rates consistently fell as equities increased. In the absence of high interest rates, equity markets usually follow the direction of earnings. In recent quarters, the price to earnings ratios have fallen as the markets have risen because earnings have risen faster.

When you consider long-term interest rates, the 10-year U.S. Government Treasury rate is around 2.8%. The consumer price index (CPI) stands at about 2.2% (February 2018).[9] Therefore, the real interest rate is around 0.6% (nominal interest rate – CPI = real interest rate or real yield). The average long-term real interest rate for the last 60 years is around 2.4%.[11,12] Compared to this long-term average, we are sitting at 0.6%, which is considerably lower and still conducive to a healthy environment for equities to flourish.

Therefore, we stick with our 2017 prediction that the S&P could go to 3,000 and wouldn't be surprised to see it go to 3,700 in the next 24 months.

Sources: [8]U.S. Census Bureau; [9]Federal Reserve; [10]www.usdebtclock.org; [11]Bureau of Labor Statistics; [12]FactSet.

Shashi Mehrotra, Chartered Financial Analyst, is the Chief Operating Officer and Chief Investment Officer of Legend Advisory. The opinions and predictions expressed herein are those of Shashi Mehrotra solely and not necessarily the opinions or expectations of Legend Advisory or any of its affiliates. Such opinions and predictions are as of March 27, 2018, and are subject to change at any time based on market and other conditions. No predictions or forecasts can be guaranteed. Current market and economic data is as of March 27, 2018. Information contained herein has been obtained from sources believed to be reliable, but is not guaranteed.

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Make Your Tax Refund Work for You

For tax year 2016, the IRS processed 128.8 million tax returns and issued more than 97 million refunds totaling $268.3 billion. On average, taxpayers received a $2,763 refund, an increase of roughly 2% over the previous year.[13]

According to a survey by GoBankingRates, the majority of Americans (79%) either paid down their debts or saved their refund last year.[13] If you receive a refund for tax year 2017, you might want to consider putting that money to work for you by choosing one of the following tax-advantaged options:

- **Roth IRA:** Contributions to Roth IRAs are made with after-tax dollars so they do not reduce taxable income today. Any earnings grow tax-deferred and qualified distributions are tax-free.
- **Traditional IRA:** Contributions to traditional IRAs may be tax deductible and any earnings grow tax-deferred until assets are withdrawn, which is generally after retirement.
- **529 college savings plans:** Contributions are flexible, may qualify for state tax deductions, and any earnings grow tax-deferred. Distributions that are used to pay for the beneficiary's college costs are federally tax-free.

If these savings alternatives don't appeal to you, we can discuss other options that may meet your needs.

[13] The Motley Fool, *The Average American's 2017 Refund and How They'll Spent it,* May 1, 2017.