

The SWA October 2020 Newsletter



The SWA Team
Strategic Wealth Advisors
9375 E Shea Blvd, Ste 100 • Scottsdale • AZ • 85260
480-998-1798 • fax: 480.522.1798
info@xpertadvice.com • www.Xpertadvice.com



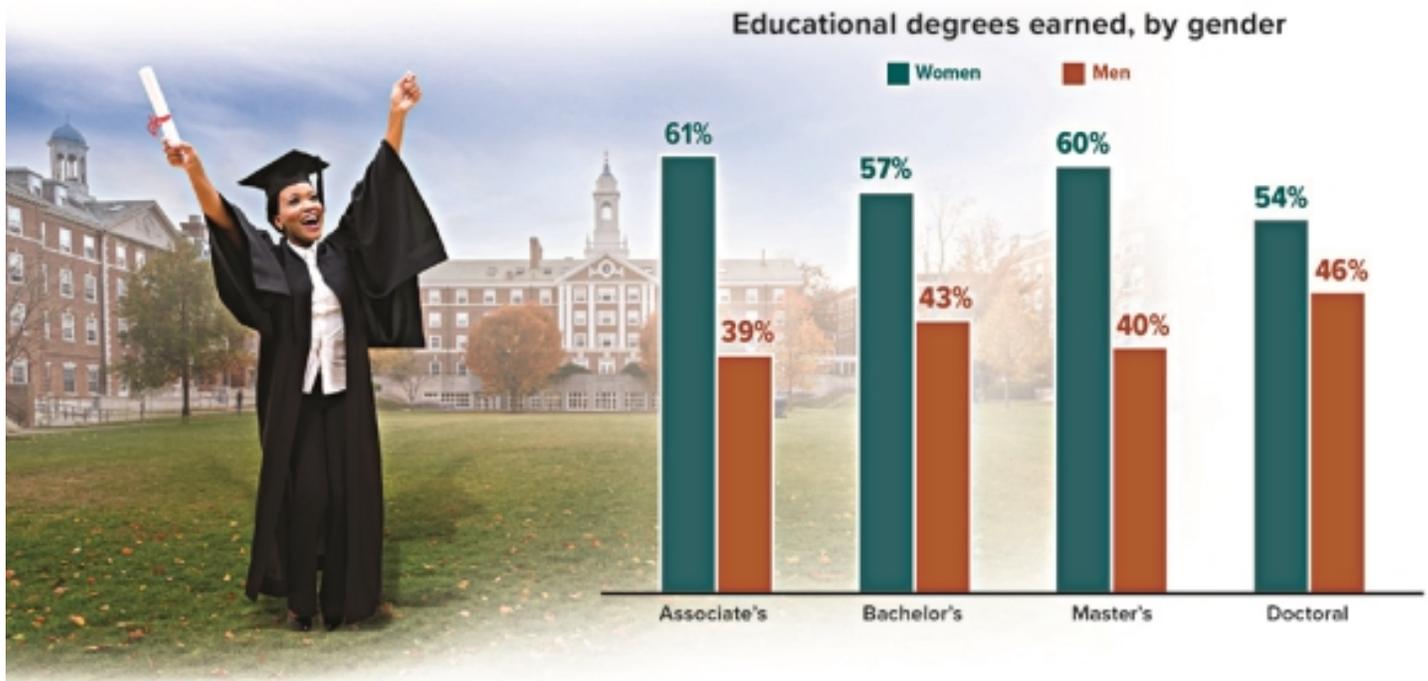
It's time for an employee benefits review. Those still working may want to evaluate their choices for health, dental, disability, long-term care and life insurance coverages. If accounts such as a Flexible Spending Account, Health Savings Account or Dependent Care Reimbursement Account exist, do you have a plan to contribute to or utilize these accounts before the end of the year? Are you on track to maximize contributions to your retirement savings plan for 2020? If you are 50 or older, have you made Catch-Up contributions? Are you taking advantage of an existing Employee Stock Purchase Plan? For the highly compensated, is there a Deferred Compensation plan available to you? Other benefit plans such as employee stock options, restricted stock, and performance bonuses can be an important part of your long-term financial security. Start your review by obtaining a copy of your summary of benefits. Feel free to contact SWA and we will gladly assist you.

Until November...

The SWA Team

Women Outpace Men in Degrees Earned

During the 2019-2020 academic year, U.S. colleges and universities conferred an estimated 989,000 associate's degrees, 1,975,000 bachelor's degrees, 820,000 master's degrees, and 184,000 doctoral degrees. Women attain more degrees than men at every level.



Source: U.S. Department of Education, 2019 (projected data)

Is It Time to Think About Tax-Free Income?

Federal and state governments have spent extraordinary sums in response to the economic toll inflicted by the COVID-19 pandemic. At some point it is likely that governments will look for ways to increase revenue to compensate for this spending and increase income taxes as a result. That's why it might be a good time to think about ways to help reduce your taxable income. Here are three potential sources of tax-free income to consider.

Roth IRA

Contributions to a Roth IRA are made with after-tax dollars — you don't receive a tax deduction for money you put into a Roth IRA. Not only does the Roth IRA offer tax-deferred growth, but qualified Roth distributions including earnings are not subject to income taxation. And the tax-free treatment of distributions applies to beneficiaries who may inherit your Roth IRA.

Municipal Bonds

Municipal, or tax-exempt, bonds are issued by state and local governments to supplement tax revenues and to finance projects. Interest from municipal bonds is usually exempt from federal income tax. Also, municipal bond interest from a given state generally isn't taxed by governmental bodies within that state, though state and local governments typically do tax interest on bonds issued by other states.

Health Savings Accounts

A health savings account (HSA) lets you set aside tax-deductible or pre-tax dollars to cover health-care and medical costs that your insurance doesn't pay. HSA funds accumulate tax-deferred, and qualified withdrawals are tax-free. While an HSA is intended to pay for current medical and related expenses, you don't necessarily have to seek reimbursement now. You can hold your HSA until retirement then reimburse yourself for all the medical expenses you paid over the years with tax-free HSA distributions — money you can use any way you'd like. Be sure to keep receipts for medical expenses you incurred.

The Congressional Budget Office estimates that the federal budget deficit will be roughly \$3.7 trillion in fiscal year 2020 and \$2.1 trillion the following fiscal year. By comparison, the federal budget deficit for fiscal year 2019 was \$984.4 billion.

Sources: Congressional Budget Office, April 28, 2020; U.S. Department of the Treasury, May 2020

Municipal bonds are subject to the uncertainties associated with any fixed income security, including interest rate risk, credit risk, and reinvestment risk. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. Some municipal bond interest could be subject to the federal and state alternative minimum tax. Tax-exempt interest is included in determining if a portion of any Social Security benefit you receive is taxable. Because municipal bonds tend to have lower yields than other bonds, the tax benefits tend to accrue to individuals with the highest tax burdens.

HSA funds can be withdrawn free of federal income tax and penalties provided the money is spent on qualified health-care expenses. Depending upon the state, HSA contributions and earnings may or may not be subject to state taxes. You cannot establish or contribute to an HSA unless you are enrolled in a high deductible health plan (HDHP).

To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet the five-year holding requirement and the distribution must take place after age 59½ or due to the owner's death, disability, or a first-time home purchase (up to a \$10,000 lifetime maximum).

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Incapacity and Advance Medical Directives

At some point in your life, you may lose the ability to make or communicate responsible health-care decisions for yourself. Without directions to the contrary, medical professionals are generally compelled to make every effort to save and sustain your life. Depending on your attitude toward various medical treatments and your views on the quality of life, you may wish to take steps now to control future health-care decisions with one or more advance medical directives.

What Is an Advance Medical Directive?

The laws of your state may allow you to adopt one or more advance medical directives to manage your future medical care. There are three main types of advance medical directives: (1) a living will, (2) a durable power of attorney for health care, and (3) a do-not-resuscitate order. Each has unique characteristics and is useful under specific circumstances. You may find that one, two, or all three advance medical directives are necessary to express all your wishes regarding medical treatment.

Living Will

A living will is a legal document that specifies the types of medical treatment you would want, or not want, under particular circumstances. In most states, a living will takes effect only under certain circumstances, such as a terminal illness or injury. Generally, one can be used solely to decline medical treatment that "serves only to postpone the moment of death."

Durable Power of Attorney for Health Care/Health-Care Proxy

A durable power of attorney for health care (DPAHC), also known as a health-care proxy, is a legal document in which you appoint a representative to make medical decisions on your behalf if you become unable to make or communicate them yourself. It allows you to exercise control over your health care through this representative, who will have the authority to make most medical care decisions for you.

You may want to appoint such a representative to act on your behalf. If you don't, medical professionals will generally be compelled to do everything possible to save and sustain your life. A DPAHC can resolve conflicts and help ensure that your choices regarding medical treatment are respected. A DPAHC may not be practical in an emergency — your representative must be present to act on your behalf.

Do-Not-Resuscitate Order

A do-not-resuscitate (DNR) order is a legally binding order, signed by both you and your physician, that directs medical personnel not to perform cardiopulmonary resuscitation (CPR) or other invasive procedures on you if you stop breathing or your heart stops beating. A DNR is the only advance medical directive specifically intended for use in an emergency. There are two types of DNRs: One is effective only while you are hospitalized; the other is used by people outside the hospital. ID bracelets, MedicAlert® necklaces, and wallet cards are some methods of noting DNR status.

More to Consider

- The laws on advance medical directives vary considerably from state to state. If you spend a significant amount of time in a state other than where you live, you may want to research that state's laws as well.
- Review your advance medical directives periodically to ensure they reflect your current wishes and attitude.
- Discuss your advance medical directives with appropriate persons (perhaps your doctor, your DPAHC representative, your family, and your friends).
- If you have multiple advance medical directives, make sure your instructions are stated consistently throughout. In many states, the most recent document prevails in case of a conflict.

Incapacity and Advance Medical Directives

ADVANCE MEDICAL DIRECTIVE

Living will

Durable power of attorney for health care

Do-not-resuscitate order



USED TO

Decline medical treatment for terminal illness or injury

Appoint representative to make medical decisions for you

Direct medical personnel not to perform CPR

Medicare Open Enrollment: It's Time to Review Your Coverage

During the Medicare Open Enrollment Period that runs from October 15 through December 7, you can make changes to your Medicare coverage that will be effective on January 1, 2021. If you're satisfied with your current coverage, you don't need to make changes, but it's a good idea to review your options.

During Open Enrollment, you can:

- Change from Original Medicare (Part A hospital insurance and Part B medical insurance) to a Medicare Advantage plan (Part C), or vice versa
- Switch from one Medicare Advantage plan to another Medicare Advantage plan
- Join a Medicare Prescription Drug Plan (Part D), switch from one Medicare Prescription Drug plan to another, or drop prescription drug coverage

Medicare Advantage plans are offered by private companies approved by Medicare. They cover all Original Medicare services, and often include Part D coverage and extra benefits.

Review any information you receive from your current Medicare plan. For example, in the fall, your plan will send you an Annual Notice of Change that lists changes to your plan's coverage, costs, or service area that will take effect in January. You will also receive a comprehensive Evidence of Coverage document that includes detailed information on the plan's benefits, how the plan works, and your rights and responsibilities.

The official government handbook, *Medicare & You*, which is available electronically or through the mail, also contains information about Medicare that may help you determine whether your current coverage is appropriate.

As you review your coverage, here are a few points to consider:

- What were your health-care costs during the past year, and what did you spend the most on?
- What services do you need and which health-care providers and pharmacies do you visit?
- How does the cost of your current coverage compare to other options? Consider premiums, deductibles, and other out-of-pocket costs such as copayments or coinsurance; are any of these costs changing?

If you're interested in a Medicare Advantage plan or a Medicare Prescription Drug plan, you can use the Medicare Plan Finder at [medicare.gov](https://www.medicare.gov) to see which plans are available in your area and check their overall quality rating. To get personalized information, you can log in or create an account (if you have a Medicare Number) to compare your plan to others, and see prescription drug costs.

If you have questions about Medicare, call 1-800-MEDICARE or visit the Medicare website. Your State Health Insurance Assistance Program can also help you sort through your options.

IMPORTANT DISCLOSURES

The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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