

The Coach's Corner Nov 2023

From your Retirement Coaches and Advisors



Jeff & Erin Lapidus
JBL Financial Services, Inc.
9300 Olive Blvd
Saint Louis, MO 63132
314-863-0008
FAX: 314-863-0009
erin@jblfinancial.com
<http://www.jblfinancial.com>



Welcome back,

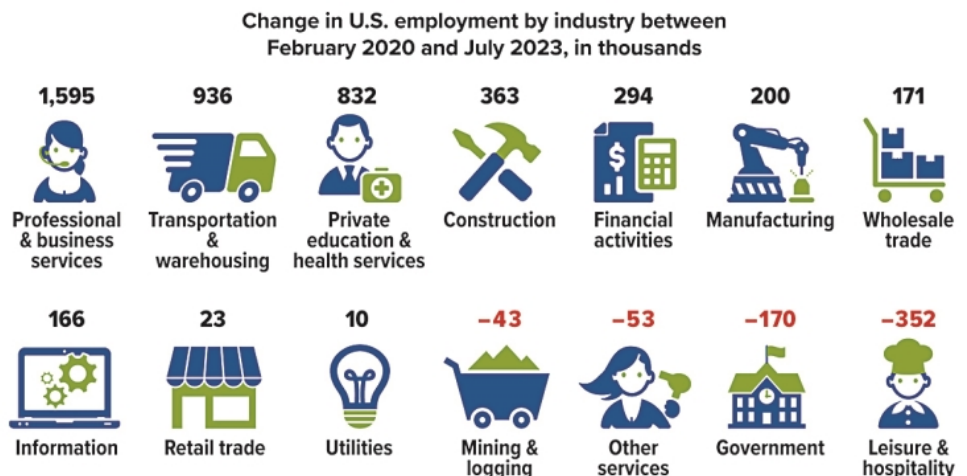
It is our favorite month, because we have the best holiday, (in Jeff's opinion) Thanksgiving! As always, we thank you for listening to our show and supporting us all these years. We couldn't do it without you.

November's newsletter features a variety of articles; HDHP/HSA pairings to help control medical costs, a recap on the job market, and clean vehicle tax credits. We hope you enjoy!

Many Thanks,
Your Retirement Coaches

Uneven Jobs Recovery

The U.S. economy lost nearly 22 million jobs during the two-month pandemic recession of March–April 2020. The total job count returned to pre-pandemic levels in June 2022, and by July 2023, there were almost 4 million more Americans working than before the pandemic. But jobs shifted among industries. The biggest gains have been in professional & business services (which includes many remote workers) and transportation & warehousing, while the biggest losses have been in leisure & hospitality and government, largely in public education.



Source: U.S. Bureau of Labor Statistics, 2023

HDHP/HSA Pairing May Help Control Medical Costs

If your employer offers health insurance benefits, one of your options may be a high-deductible health plan (HDHP) with eligibility for a health savings account (HSA). These plans offer potential savings by encouraging you to make cost-effective choices in your medical spending. If you do not have employer-sponsored health coverage, you can choose from a variety of individual HDHPs, including plans through state or federal health insurance exchanges.

Lower Premiums, Higher Deductibles

Premiums for HDHP coverage are generally lower than for traditional preferred provider organization (PPO) coverage. In exchange, you pay a larger annual deductible before the plan begins to cover a percentage of expenses.

Certain types of preventive care, such as annual physicals, health screenings, and selected medications, may be covered without a deductible (in some cases, provided at no cost). HDHPs can also offer telehealth and other remote health-care services without a deductible through 2024. Regardless of the deductible, the costs for medical services may be reduced through the insurer's negotiated rate.

To protect consumers from catastrophic expenses, most health insurance plans have an annual out-of-pocket maximum above which the insurer pays all medical expenses. HDHP maximums are generally higher than those of traditional plans. But if you reach the annual maximum, your total cost for that year would typically be lower for an HDHP, with the up-front savings on premiums. If you have low medical costs, the lower premiums also will generally make an HDHP more cost-effective. For other scenarios, the cost-effectiveness of an HDHP may vary with your situation. Although an HDHP might save money over the course of a year, some consumers could be hesitant to obtain appropriate care because of the higher out-of-pocket expense at the time of service.

Triple Tax Advantage

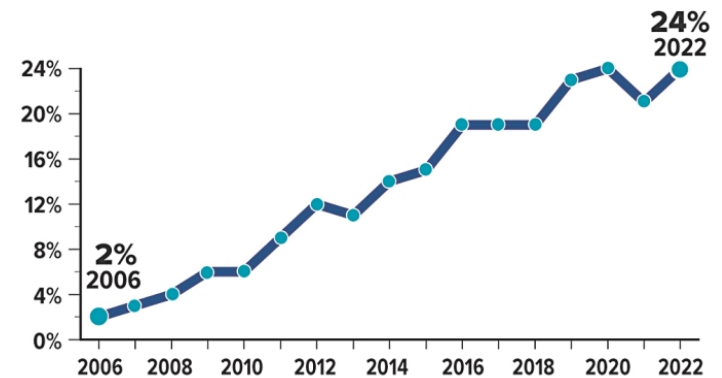
You must be enrolled in an HDHP to establish and contribute to an HSA, which allows investments within the account and offers three powerful tax advantages: (1) contributions are deducted from your adjusted gross income, (2) investment earnings compound tax-free inside the HSA, and (3) withdrawals are tax-free if the money is spent on qualified medical expenses (including dental and vision expenses). Some states do not follow federal tax rules on HSAs.

HSA contributions are typically made through payroll deductions, but in most cases, they can also be made directly to the HSA provider. In 2023, contribution limits are \$3,850 for an individual and \$7,750 for a family (\$4,150/\$8,300 in 2024), plus an additional \$1,000 if the account holder is age 55 or older.

Although 2023 payroll contributions must be made by December 31, you can make direct contributions for 2023 up to the April 2024 tax deadline. Some employers contribute to an employee's HSA, and any employer contributions would be considered in the annual contribution limit.

Growing Trend

Percentage of covered workers enrolled in an HSA-eligible high-deductible health plan



Source: Kaiser Family Foundation, 2022

Saving for the Long Run

Many people use HSAs to pay health-care expenses as they go, but there are advantages to paying from other funds and allowing the HSA to accumulate and pursue tax-deferred growth over time. Assets in an HSA belong to the contributor, so they can be retained in the account or rolled over to a new HSA if you change employers or retire. Unspent HSA balances can be used to help meet health-care needs in future years whether or not you are enrolled in an HDHP; however, you must be enrolled in an HDHP to contribute to an HSA.

Although HSA funds cannot be used to pay regular health insurance premiums, they can be used to pay Medicare premiums and long-term care costs, which could make an HSA an excellent vehicle to help fund retirement expenses. After you enroll in Medicare, you can no longer contribute to an HSA (because Medicare is not an HDHP), but you can continue to use the HSA funds tax-free for qualified expenses. After age 65, you can withdraw HSA funds for any purpose without paying the 20% penalty that typically applies to those under age 65, but you would pay ordinary income taxes, similar to a withdrawal from a traditional IRA.

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

New Life for Your Old Insurance Policy

Life insurance can serve many valuable purposes. However, later in life — when your children have grown, you've retired, or you've paid off your mortgage — you may think you no longer need to keep your coverage, or perhaps your coverage has become too expensive. You might be tempted to abandon the policy or surrender your life insurance coverage, but there are other alternatives to consider.

Term vs. Perm

If you have term life insurance, you generally will receive nothing if you surrender the policy or let it lapse by not paying the premiums. However, depending on your age, your health status, and the time left in the term, you may be able to extend the coverage or convert the policy to a permanent policy. The rules for extension and conversion vary by policy and company.

On the other hand, if you own permanent life insurance, the policy may have a cash surrender value (CSV), which you can receive upon surrendering the insurance. If you surrender your cash value life insurance policy, any gain resulting from the surrender (generally, the excess of your CSV over the cumulative amount of premiums paid) will be subject to federal and possibly state income tax. Also, surrendering your policy prematurely may result in surrender charges, which can reduce your CSV.

Exchange the Old Policy

Another option is to exchange your existing permanent life insurance policy for either a new life insurance policy or another type of insurance product. Under the federal tax code, this is known as an IRC Section 1035 exchange.

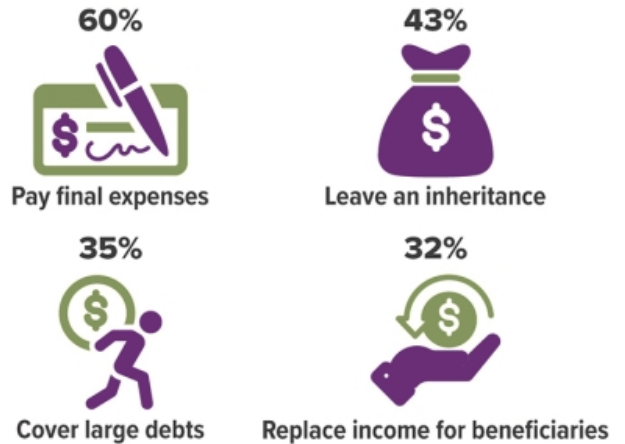
The exchange must be made directly between the insurance company that issued the old policy and the company issuing the new policy or contract. The rules governing 1035 exchanges are complex, and you may incur surrender charges from your current life insurance policy. In addition, you may be subject to new sales, mortality, expense, and surrender charges for the new policy.

Here are some options for a 1035 exchange.

Lower the premium. If the premium cost of your current life insurance policy is an issue, you may be able to lower the premium by reducing the death benefit, which would not require an exchange. Or you can try to exchange your current policy for a policy with a lower premium cost. However, it's possible that you may not qualify for a new policy because of your age, health problems, or other reasons.

Why Buy Life Insurance?

Although life insurance has traditionally been viewed as a way to replace income after the death of a wage earner, consumers are more likely to give other reasons for purchasing coverage.



Source: NerdWallet, 2022 (multiple responses allowed)

Create an income stream. You may be able to exchange the CSV of a permanent life insurance policy for an immediate annuity, which can provide a stream of income for a specific period of time or for the rest of your life. Each annuity payment will be apportioned between taxable gain and nontaxable return of capital. You should be aware that by exchanging the CSV for an annuity, you will be giving up the death benefit, and annuity contracts generally have fees and expenses, limitations, exclusions, and termination provisions. Also, any annuity guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Provide for long-term care. Another option is to exchange your life insurance policy for a tax-qualified long-term care insurance (LTCI) policy. Any taxable gain in the CSV is deferred in the long-term care policy, and benefits paid from the tax-qualified LTCI policy are received tax-free. Keep in mind that if an LTCI policy does not accept lump-sum premium payments, you would have to make several partial exchanges from the CSV of your existing life insurance policy to the LTCI policy provider to cover the annual premium cost. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. Carriers have the discretion to raise their rates and remove their products from the marketplace.

Whatever option you choose, it may be wise to leverage any cash value in your unwanted life insurance policy to meet other financial needs.

Clean Vehicle Tax Credits: New vs. Qualified Commercial

Federal tax credits may be available to help offset your cost to purchase certain clean vehicles (including electric, plug-in hybrid, and fuel cell vehicles).

The new clean vehicle tax credit can be either a personal or a general business tax credit, depending on whether the vehicle is used in a trade or business. If the vehicle is used 50% or more for business, the credit is treated as a general business tax credit; otherwise, the credit is allocated between personal and business use. The qualified commercial clean vehicles tax credit is a general business tax credit. Both credits are nonrefundable if they exceed your tax liability. An unused general business tax credit can be carried forward to a later year.

New Clean Vehicle Tax Credit

A personal or a general business tax credit of up to \$7,500 is available for the purchase of a new clean vehicle meeting certain requirements (including weighing less than 14,000 pounds).

A credit of \$3,750 is available if a critical minerals requirement is met, and a credit of \$3,750 is available if a battery components requirement is met. Fuel cell vehicles that have final assembly within North America can qualify for the \$7,500 credit without regard to these two requirements. The credit is not available for vehicles with a manufacturer's suggested retail price higher than \$80,000 for vans, sports utility vehicles, and pickups, or \$55,000 for other vehicles. You can

check the eligibility of vehicles for the credit at [fueleconomy.gov](https://www.fueleconomy.gov).

The credit is generally not available if the purchaser's modified adjusted gross income for the taxable year or the preceding taxable year (whichever is less) exceeds \$150,000 (\$300,000 for joint filers and surviving spouses, \$225,000 for heads of households). The income limitation does not apply to corporations subject to the corporate income tax. In the case of a partnership or S corporation, the credit is allocated to the partners or shareholders, respectively, and the income limitation is applied to those individuals.

Qualified Commercial Clean Vehicles Tax Credit

A general business tax credit of up to \$7,500 (\$40,000 if the vehicle weighs 14,000 or more pounds) is available for the purchase of a qualified commercial clean vehicle meeting certain requirements.

The credit is equal to the lesser of (a) 15% of the tax basis (generally, the purchase price) of the vehicle (30% if the vehicle is not powered by a gasoline or diesel internal combustion engine), or (b) the incremental cost of the vehicle (the excess of the purchase price of the clean vehicle over the price of a comparable vehicle that is powered solely by a gasoline or diesel internal combustion engine).

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Listen to our show "Straight Talk on Retirement" every Saturday from 9-11am on KTRS 550-AM.

We are accepting new clients so please do not hesitate to offer your friends and family members the chance to visit with us for a free coaching session- let's help them get their financial life on track!

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