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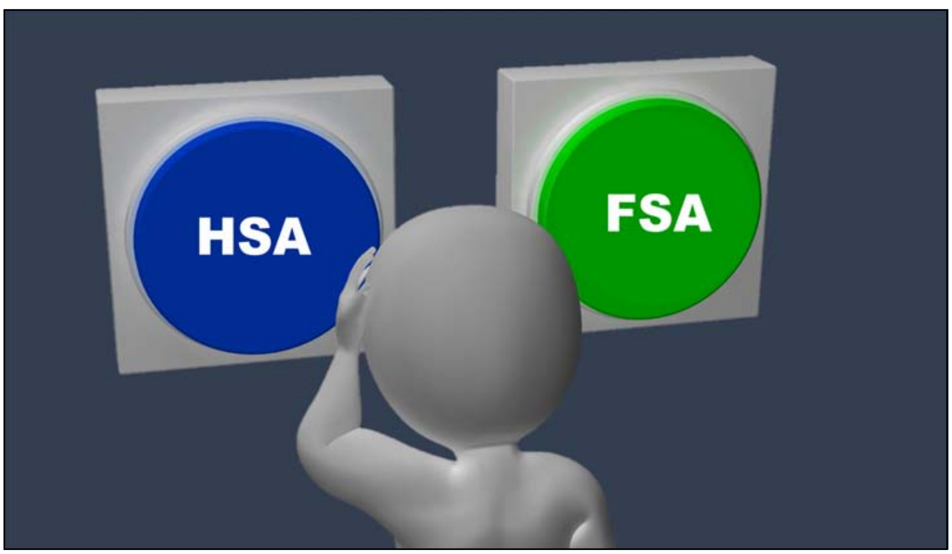
HSA Or FSA: Which Is Better For Medical Savings?

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?



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. 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. One major difference is that 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 2018, the maximum contribution you can make is $2,650 and this rises to $2,700 in 2019. That's not a lot, but if your spouse has health 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

(Continued on page 4)

Are You "Rich" Or Not? New Survey Hits The High Points

Do you consider yourself rich? If you own a couple of mansions, a fleet of luxury cars, and financial accounts reaching high into the millions, it may be easy to answer that question. But other well-to-do people might struggle with the issue of whether they are "rich" or not.

To get a better grasp of perceptions, Yahoo Finance recently posed a series of questions about personal wealth, to which more than 25,000 people responded. The survey concluded that people call themselves rich if they have a median income of $425,000 and a net worth of $5 million.

But this exercise also turned up other interesting results. For instance, the median amounts respondents required to consider other people rich were an income of $500,000 and a net worth of $10 million. In other words, more people called themselves rich than were actually rich by their own standards. On the other hand, it's noteworthy that people earning $300,000 a year with a couple of millions of dollars of assets didn't think themselves rich—far from it.

But even if you're not rich in your own mind, you may get there by sticking to a financial plan designed to increase personal wealth. Whether your focus is building wealth or protecting the wealth you have (or both!), we are here to help you develop a plan that fits your individual needs.

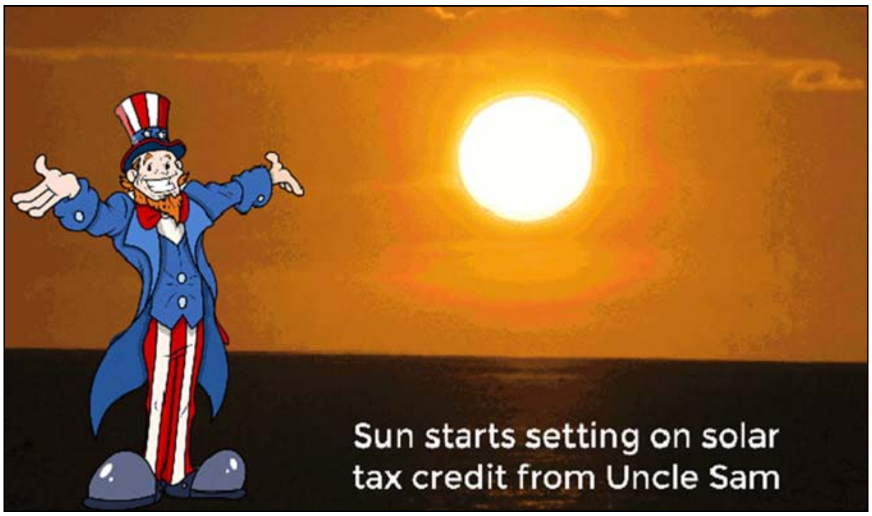
Kim Scott, CFP®
Senior Financial Advisor

Sun Starts Setting On Solar Tax Credit From Uncle Sam

The sun is shining on the tax credit for solar power but this federal tax credit that lightens your tax burden significantly starts sunsetting in 2020.

The good news is that the cost of solar panels and equipment is dropping, down about 6.5% in 2018, and putting in solar panels can cut your utility bills by a lot. The bad news is the upfront cost isn't cheap — an average of $13,188 in 2018, according to EnergySage, a marketplace for solar equipment.

Luckily, federal tax credits can cut your cost. That $13,188 upfront cost is after taking the tax credit. Far more valuable than a deduction against your taxable income, a credit reduces your tax dollar for dollar. But you better hurry to beat the phase-out of the credits.



Currently, the tax credit reduces the net cost of a solar system in residential and commercial properties by 30%. In 2020, that drops to 26%, and drops again in 2021 to 22%. The credit then zeroes out in 2022. The break for commercial use does remain, but only at 10%.

One small saving grace is that some states, local governments, and utilities also offer rebates and other tax incentives that can further lower the solar system costs. In the meantime, while the credit lasts, qualifying expenses include the panels themselves, the wiring to connect them to your home electrical system, and the cost of the labor in the installation.

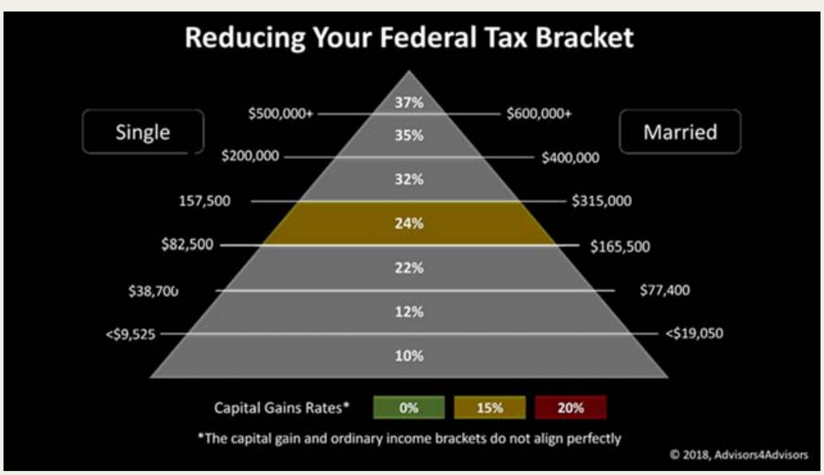
If you don't have a big enough tax liability to use the full credit to cut your tax bill, the amount left over can be carried forward to the next tax year. The home served by solar power does not have to be your principal residence, and no limit is placed on the dollar amount of your credit, which is good if you own a large home.

A caveat: Should you rent out your home for part of the year, you have to reduce the credit for the time you're not present. In an example from TurboTax, if you live in the house for just three months, your credit is one quarter of the amount you'd benefit by had you lived in the place year-round: So, for a system costing $10,000, the 30% credit is $3,000, but you as a part-time resident and landlord get only $750. Rent out the house for the entire year, and you get zilch.

Certainly, some systems cost more than others. For instance, if you have a rectangular south-facing roof, your installation is simple. Yet if the roof is broken up by dormers, skylights and multiple levels, putting in a system is trickier, and more expensive. Nonetheless, whatever you end up paying, the shiniest deals are available now, so you may want to act before the sun starts to set on solar tax credits from Uncle Sam. ●

High Income Earners & Roth Conversion

Roth IRAs are tax-free, making them popular, but a married couple is ineligible to contribute to a Roth if they earned more than $199,000 of modified adjusted gross income in 2018 ($203,000 in 2019). A "backdoor" around this limit enables you to convert traditional IRA assets into tax-free Roth IRA accounts, even if you're over the income limit. Here's a strategic approach for maximizing the backdoor route to get tax-free Roth treatment with the least amount of conversion-tax.



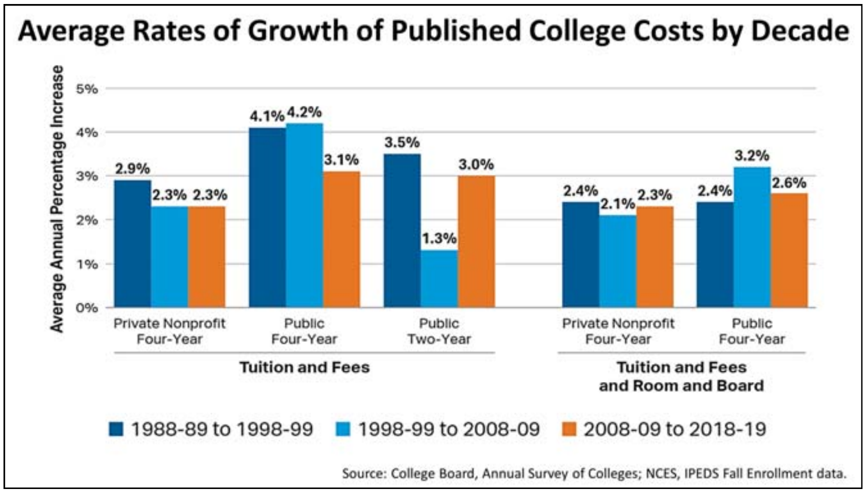
When you convert a traditional IRA to a Roth account, you are required to pay tax on the income withdrawn from your traditional IRA. If you do not have the cash on hand to pay the extra income tax you'll owe next April 15, you probably should forget about converting now; withdrawing a larger sum to pay for the income taxes is a risky financial bet and is generally unwise.

If you have the cash on hand to pay the extra income tax you'll owe in the

Strategic Considerations In Funding College

Federal tax laws can help you fund a child or grandchild's college education in a variety of ways. Some key strategic considerations are outlined below:

529 gets broadened, the pro and con. Named after a section of the tax code, 529 college savings plans have been a revolutionary tool in the struggle to pay for higher education, which for decades has risen in cost much faster than the U.S. rate of inflation. 529s enable you to contribute an unlimited amount of after-tax dollars. 529s grow tax-free and withdrawals are also tax free, if used to pay for books, tuition, room and board. The Tax Cuts and Jobs Act extended the 529's reach, so starting in 2018 you can use a 529 to pay for private pre-college education, K-12. Religious, military, gifted, and other specialized primary and high schools are, thus, more affordable. Keep in mind, paying for a child's education earlier could hurt savings for college. College and graduate schools generally cost much more than K-12 at a private school.



Be clear on a 529's limits. What if you don't use all the 529's proceeds? There are many ways to pay for college: financial aid and parents' pitching in, a student taking a side job to support paying tuition, etc. If a balance remains in the 529 account, you're generally paying for expenses other than education — like a down payment on a first home, is not permitted. If you use the proceeds for anything other than education, you pay a 10% penalty and income tax on the earnings segment of the withdrawal. A better idea: channel the money to a relative for schooling purposes.

When to tap a 529. And what if the 529 isn't enough to pay for an entire four years of college? Do you use the account at the beginning or end of a college career? If you opt for the first two years, you forfeit two years of growth at the outset. Statistically, odds favor the account growing more after taxes if you defer withdrawals.

How to use a popular tax credit. The American Opportunity Tax Credit provides a maximum annual credit of $2,500, and it is unavailable for singles with adjusted gross income of more than $90,000 per year, or couples with more than $180,000. Either the student or another taxpayer who declares the student as a dependent can take this credit. A caveat: You only can take the credit for four consecutive years and the academic and calendar years don't line up, unless you start in January and graduate in December, four years later. That may mean, for students who follow the traditional college schedule, only three years are available: combining the last half of freshman year, sophomore and junior years, then the first half of senior year.

The dependent question. Parents can claim education credits for a student dependent, if the student receives over half of his or her support from mom and dad. The student can't earn more than $4,000 annually.

Bottom line. According to College Board, a not for profit founded in 1900 to expand access to higher education, college-the cost of college rose 2.3% annually for private colleges and 2.6% for public colleges in the decade ended with the 2018-19 academic year. Private colleges are more expensive, costing an average $34,740 for the 2017-18 school year, and public colleges came in at $9,970. The bottom line is college planning doesn't end once your child or grandchild enters college. Feel free to use us as a resource in putting together a long-term strategic solution that fits you and your loved one. ●

year you draw from your traditional IRA to make the conversion to the Roth, your next move is maximizing your tax bracket. For instance, if your taxable income is $177,500 after making a $100,000 withdrawal from the traditional IRA, consider lowering the amount you convert to avoid pushing you into the 32% bracket. Reducing a $130,000 contribution to a Roth by $30,000 lowers your maximum tax bracket to 24%, for example, giving you the maximum benefit of the 24% bracket.

Because of the stock market's performance in 2018, you may be able to convert a traditional IRA to a Roth with little or no tax taxes. If you funded a deferred compensation plan or traditional IRA with after-tax income in late 2017 or 2018, its fair market value may be lower now than the amount you contributed, and you could convert that traditional IRA account to a Roth tax-free!

To be clear, if you made after-tax contributions to an IRA in 2017 or 2018 and it's shown little or no appreciation, consider converting that IRA to a tax-free Roth IRA, and because you will owe little or no additional income tax on the conversion and — unlike the traditional IRA — the Roth will create tax-free income upon withdrawal.

If you made after-tax IRA contributions to a traditional IRA in 2017 or 2018, or if you want to evaluate a Roth IRA conversion, please give us a call to develop a strategy that best suits your situation. ●

Is Amazon Keeping The Inflation Rate Low?

Amazon's 2017 annual 10(K) federal financial filing reported $4.1 billion in net operating income. But the profit was entirely attributable to Amazon's tech infrastructure line of business, Amazon Web Services (AWS). Amazon's retail sales business reported a loss.

Unless you're a professional securities analyst or MBA, it may not be easy to discern that Amazon lost money on its main business from the company's required 10(K) annual public disclosure filing with the U.S. Securities and Exchange Commission. But it's disclosed in this table on page 69 of Amazon's 10(K) for 2017. AWS earned a $4.3 billion profit on $17.5 in net sales revenue, while total profits were $4.1 billion on well over $100 billion of sales.

Amazon could afford to take a loss on its retail business. It's a long-term investment in gaining market share. Losses taken on dominating internet retailing were offset by AWS, Amazon's business of building the infrastructure of the web, which has been very profitable.

With its strategy to expand retail market share based on razor-thin profit margins, Amazon transformed retail sales and consumer behavior over the last decade. Before buying at a traditional retail store, consumers now routinely check their phones for a lower price online. The increased efficiency of internet sales enables consumers to buy goods at insanely low prices. While Amazon became the Crazy Eddie of the internet era, it has caused disinflation.

Inflation has always been a somewhat mysterious factor in the economy. It's hard to understand its causes, and harder to control. Officials at the U.S. Federal Reserve Board have conceded in recent years their surprise at the persistently low inflation rate. Amazon is likely a factor in why prices are not rising fast in the economic boom.

This is not a recommendation to buy or sell Amazon securities but an observation about the internet retailer's impact on the U.S. rate of inflation and its implications for economic growth. In the second quarter of 2018, the government reported a 2.9% surge in productivity because real wages *after* inflation declined, lowering the cost of an employee to companies by nearly 1%, according to the Bureau of Labor Statistics quarterly report through June 2018.

Declining unit labor costs amid real wages is a positive for economic growth, and internet retailing is an influence in the economy to keep an eye on. Among the swirl of forces that affect inflation, ranging from international oil politics to the Federal Reserve, your Amazon shopping cart is playing a role. ●

Amazon's 2017 Financials; A Cause Of Disinflation

Information on reportable segments and reconciliation to consolidated net income (loss) is as follows (in millions):

	Year Ended December 31, 2015	2016	2017
North America			
Net sales	$ 63,708	$ 79,785	$ 106,110
Operating expenses	62,283	77,424	103,273
Operating income	$ 1,425	$ 2,361	$ 2,837
International			
Net sales	$ 35,418	$ 43,983	$ 54,297
Operating expenses	36,117	45,266	57,359
Operating income (loss)	$ (699)	$ (1,283)	$ (3,062)
AWS			
Net sales	$ 7,880	$ 12,219	$ 17,459
Operating expenses	6,373	9,111	13,128
Operating income	$ 1,507	$ 3,108	$ 4,331
Consolidated			
Net sales	$ 107,006	$ 135,987	$ 177,866
Operating expenses	104,773	131,801	173,760
Operating income	2,233	4,186	4,106
Total non-operating income (expense)	(665)	(294)	(300)
Provision for income taxes	(950)	(1,425)	(769)
Equity-method investment activity, net of tax	(22)	(96)	(4)
Net income	$ 596	$ 2,371	$ 3,033

Net sales by groups of similar products and services is as follows (in millions):

Source: Amazon's 2017 10-K report, page 69.

HSA Or FSA: Which Is Better?

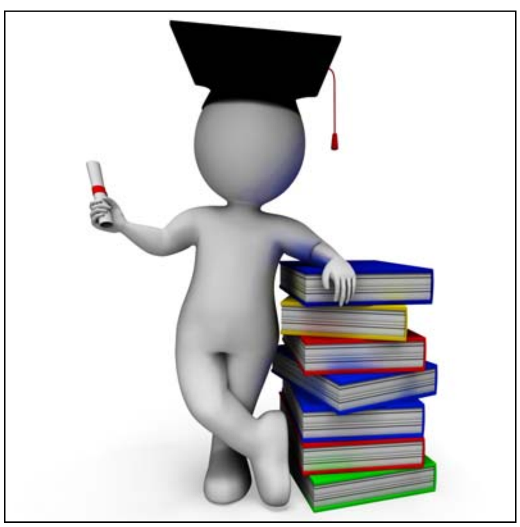
(Continued from page 1)

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 2018, a single person can save $3,450 in an HSA and in 2019, $3,500. A family: $6,900 and $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 both 2018 and 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. ●