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2019 IRS Contribution Limits

2nd Quarter 2019

Millennium Financial Focus

Financial Education for Plan Participants

Hidden Gem: HSAs in Retirement

When saving for retirement, you're probably aware of the benefits of using tax-preferred accounts such as 401(k)s and IRAs. But you may not be aware of another type of tax-preferred account that may prove very useful, not only during your working years but also in retirement: the health savings account (HSA).

HSA in a nutshell

An HSA is a tax-advantaged account that's paired with a high-deductible health plan (HDHP). You can't establish or contribute to an HSA unless you are enrolled in an HDHP. An HDHP provides "catastrophic" health coverage that pays benefits only after you've satisfied a high annual deductible. However, you can use funds from your HSA to pay for health expenses not covered by the HDHP.

Contributions to an HSA are generally either tax deductible if you contribute them directly, or excluded from income if made by your employer. HSAs typically offer several savings and investment options. Your employer will likely indicate which funds or investment options are available if you get your HSA through work. All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

Withdrawals from the HSA for qualified medical expenses are free of federal income tax. However, money you take out of your HSA for nonqualified expenses is subject to ordinary income taxes plus a 20% penalty, unless an exception applies.

Benefits of an HSA

An HSA can be a powerful savings tool. First, it may be the only type of account that allows for federal income tax-deductible or pre-tax contributions coupled with tax-free withdrawals. Depending upon the state, HSA contributions and earnings could be subject to state taxes. In addition, because there's no "use it or lose it" provision, funds roll over from year to year. And the account is yours, so you can keep it even if you change employers or lose your job.

HSA as a retirement tool

During your working years, if your health expenses are relatively low, you may be able to build up a significant balance in your HSA over time. You can even let your money grow until retirement, when your health expenses are likely to be greater.

In retirement, medical costs may prove to be one of your biggest expenses. Although you can't contribute to an HSA once you enroll in Medicare (it's not considered an HDHP), an HSA can help you pay for qualified medical expenses, allowing you to preserve your retirement accounts for other expenses (e.g., housing, food, entertainment, etc.). And an HSA may provide other benefits as well.

- An HSA can be used to pay for unreimbursed medical costs on a tax-free basis, including Medicare premiums (although not Medigap premiums) and long-term care insurance premiums, up to certain limits.
- You can repay yourself from your HSA for qualified medical expenses you incurred in prior years, as long as the expense was incurred after you established your HSA, you weren't reimbursed from another source, and you didn't claim the medical expense as an itemized deduction.
- And once you reach age 65, withdrawals for nonqualified expenses won't be subject to the 20% penalty. However, the withdrawal will be taxed as ordinary income, similar to a distribution from a 401(k) or traditional IRA.
- At your death, if your surviving spouse is the designated beneficiary of your HSA, it will be treated as your spouse's HSA.

HSAs aren't for everyone. If you have relatively high health expenses, especially within the first year or two of opening your account, you could deplete your HSA or even face a shortfall. In any case, be sure to review the features of your health insurance policy carefully. The cost and availability of an individual health insurance policy can depend on factors such as age, health, and the type and amount of insurance.

529 plan assets reach $333 billion

Assets in 529 plans reached $333 billion as of September 2018 — $310 billion (93%) in college savings plans and $23 billion (7%) in prepaid tuition plans.

Source: Strategic Insight, 529 Data Highlights, 3Q 2018

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information is available in each issuer's official statement and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, and should be read carefully before investing. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits and other benefits, such as financial aid, scholarship funds, and protection from creditors. As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.*

Rules on Opening a 529 Plan Account for College

Year over year, participation in 529 plans continues to rise.[1] Anyone can open an account, lifetime contribution limits are typically over $300,000, and there are tax benefits if the funds are used for college. Here are some common questions on opening an account.

Can I open an account in any state's 529 plan or am I limited to my own state's plan?

Answer: It depends on the type of 529 plan you have: college savings plan or prepaid tuition plan. With a college savings plan, you open an individual investment account and direct your contributions to one or more of the plan's investment portfolios. With a prepaid tuition plan, you purchase education credits at today's prices and redeem them in the future for college tuition. Forty-nine states (all but Wyoming) offer one or more college savings plans, but only a few states offer prepaid tuition plans.

529 college savings plans are typically available to residents of any state, and funds can be used at any accredited college in the United States or abroad. But 529 prepaid tuition plans are typically limited to state residents and apply to in-state public colleges.

Why might you decide to open an account in another state's 529 college savings plan? The other plan might offer better investment options, lower management fees, a stronger investment track record, or better customer service. If you decide to go this route, keep in mind that some states may limit certain 529 plan tax benefits, such as a state income tax deduction for contributions, to residents who join the in-state plan.

Is there an age limit on who can be a beneficiary of a 529 account?

Answer: There is no beneficiary age limit specified in Section 529 of the Internal Revenue Code, but some states may impose one. You'll need to check the rules of each plan you're considering. Also, some states may require that the account be in place for a specified minimum length of time before funds can be withdrawn. This is important if you expect to make withdrawals quickly because the beneficiary is close to college age.

Can more than one 529 account be opened for the same child?

Answer: Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, as long as you do so under different 529 plans (college savings plan or prepaid tuition plan). For example, you could open a college savings plan account with State A and State B for the same beneficiary, or you could open a college savings plan account and a prepaid tuition plan account with State A for the same beneficiary. But you can't open two college savings plan accounts in the same 529 plan in State A for the same beneficiary.

Also keep in mind that if you do open multiple 529 accounts for the same beneficiary, each plan has its own lifetime contribution limit, and contributions can't be made after the limit is reached. Some states consider the accounts in other states to determine whether the limit has been reached. For these states, the total balance of all plans (in all states) cannot exceed the maximum lifetime contribution limit.

Can I open a 529 account in anticipation of my future grandchild?

Answer: Technically, no, because the beneficiary must have a Social Security number. But you can do so in a roundabout way. First, you'll need to open an account and name as the beneficiary a family member who will be related to your future grandchild. Then when your grandchild is born, you (the account owner) can change the beneficiary to your grandchild. Check the details carefully of any plan you're considering because some plans may impose age restrictions on the beneficiary, such as being under age 21. This may pose a problem if you plan to name your adult son or daughter as the initial beneficiary.

What happens if I open a 529 plan in one state and then move to another state?

Answer: Essentially, nothing happens if you have a college savings plan. But most prepaid tuition plans require that either the account owner or the beneficiary be a resident of the state operating the plan. So if you move to another state, you may have to cash in the prepaid tuition plan.

If you have a college savings plan, you can simply leave the account open and keep contributing to it. Alternatively, you can switch 529 plans by rolling over the assets from that plan to a new 529 plan. You can keep the same beneficiary when you do the rollover (under IRS rules, you're allowed one 529 plan same-beneficiary rollover once every 12 months), but check the details of each plan for any potential restrictions. If you decide to stay with your original 529 plan, just remember that your new state might limit any potential 529 plan tax benefits to residents who participate in the in-state plan.

[1] Strategic Insight, 529 Data Highlights, 3Q 2018

Four Reasons Your Parents Might Be in Financial Trouble

When retirees were asked about their overall expenses and spending in retirement, 37% said they were higher than expected, 52% said they were about what they expected, and just 8% said they were lower than expected.

Source: 2018 Retirement Confidence Survey, Employee Benefit Research Institute

As your parents age, they will probably need more help from you. But it may be difficult to provide the help they need, especially if they're experiencing financial trouble.

Money can be a sensitive subject to discuss, but you'll need to talk to your parents about it in order to get to the root of their problems and come up with a solution. Before you start the conversation, consider the following four scenarios as signs that your parents might be experiencing financial challenges, and how you can make things easier for them.

1. They are dealing with debt

Perhaps your parents have fallen behind on their mortgage or credit card payments. Maybe they're dealing with the aftermath of a large, unexpected medical bill. Or it could be that years of generously supporting their children and grandchildren have left their finances in shambles.

Whatever the cause, debt among older Americans is a growing trend. In 2010, the average debt for a family in which the head of household was age 75 or older was $30,288. In 2016 (most recent data available), that number grew to $36,757.[1]

2. They are falling for fraud

According to a report by the Federal Trade Commission, older adults have been targeted or disproportionately affected by fraud. Moreover, older adults have reported much higher dollar losses to certain types of fraud than younger consumers.[2]

Why do scammers target older individuals? There are many explanations for this trend. Some older individuals lack an awareness about major financial issues. Others may be attractive targets for scammers because they have access to retirement account assets or have built up home equity. Additional factors that increase an older adult's vulnerability to scams include cognitive decline and isolation from family and friends.

3. They aren't used to managing finances

The loss of a spouse can create many challenges for the survivor, especially if the deceased spouse was in charge of finances. Many widows or widowers might find themselves keeping track of statements, paying bills, budgeting, and handling other financial matters for the first time, which can be a complicated reality to face.

4. They struggle with change

As financial institutions continue to innovate and increase online and mobile access to customer accounts, it can be difficult for older consumers to keep up. For example, some older adults may struggle with accessing their financial information online. Others might get frustrated or confused when financial institutions implement new policies and procedures, especially if they've had an account with an institution for decades.

One report described the most common issues that older consumers identified with bank accounts or services. The top three complaints involved account management (47%), deposits and withdrawals (27%), and problems caused by low funds (12%).[3]

Ways you can help

Regardless of the reasons why your parents might be having money problems, there are steps you can take to help them.

- **Set up a meeting with a financial professional.** Encourage your parents to meet with a professional to evaluate their financial situation.
- **Help them reduce spending.** Look for big and small ways that they can scale back on expenses, such as downsizing to a smaller home, cutting cable plans, or canceling unnecessary memberships/subscriptions.
- **Have them tested for dementia.** If you've noticed behavioral or memory changes in one or both of your parents, share your concerns with a medical professional. Cognitive decline can result in difficulty managing finances.
- **Lend money (using caution).** If you decide to help your parents monetarily, consider paying your parents' expenses directly rather than giving them cash so you can ensure that their bills are paid on time.
- **Help them apply for assistance.** The National Council on Aging has a website, BenefitsCheckUp.org, that can help you determine your parents' eligibility for federal, state, and private benefit programs.

[1] Debt of the Elderly and Near Elderly, 1992-2016, Employee Benefit Research Institute, 2018

[2] Protecting Older Consumers: 2017-2018, Federal Trade Commission, 2018

[3] Monthly Complaint Report, Vol. 23, Consumer Financial Protection Bureau, May 2017

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How can I get a tax break for child care?

More than 60% of children under age six in the United States have two parents in the workforce.[1] Many of these working parents must spend a burdensome share of their earnings on child care, especially if they don't have relatives who are willing and able to help out.

The following tax benefits may help you offset some of the costs paid for a nanny, babysitter, day care, preschool, or day camp, but only if the services are used so you can work.

Child-care tax credit

Families with one qualifying child (typically age 12 or younger) can claim up to $3,000 per year in child-care expenses; those with two or more qualifying children have a $6,000 annual limit. The credit is worth 20% to 35% of eligible child-care expenses, depending on income. As income rises, the credit amount drops until it hits a minimum of 20% for households with $43,000 or more in adjusted gross income.

For example, families with one qualifying child can receive a credit of $600 to $1,050; those with two or more children can receive a credit of $1,200 to $2,100. A tax credit lowers a family's tax liability dollar for dollar.

Dependent-care flexible spending account (FSA)

Higher-income families may realize a bigger tax benefit from an FSA if it is offered by an employer. Up to $5,000 a year can be set aside to cover eligible child-care costs for qualifying children, and this money is free of federal income tax and Social Security and Medicare taxes. You are not allowed to use pre-tax money from an FSA and take a credit for the same expenses. However, after spending $5,000 from an FSA, you may take a tax credit for up to $1,000 in additional child-care expenses if you have more than one child.

[1] Child Care Aware® of America, 2017

Do I need to get a REAL ID when I renew my license?

If you need to renew your driver's license, you may want to get a REAL ID. The REAL ID Act, passed by Congress in 2005, enacts the 9/11 Commission's recommendation that the federal government set minimum security standards for state-issued driver's licenses and identification cards.

Beginning October 1, 2020, residents of every state and territory will need to present a REAL ID-compliant license/identification card, or another acceptable form of identification (such as a passport), to access federal facilities, enter nuclear power plants, and board commercial aircraft. Although implementation has been slow, states have made progress in meeting the REAL ID Act's recommendations. A majority of states and territories, along with the District of Columbia, have complied with all REAL ID requirements. The remaining noncompliant jurisdictions have been granted a temporary extension from the Department of Homeland Security.[1]

To obtain a REAL ID, you must apply in person at your state's department of motor vehicles (or other approved service center). Your picture will be taken and signature captured electronically. You must provide more documentation than you would normally need for a standard driver's license or identification card. A REAL ID requires that you show (in original or certified form) proof of identity and lawful presence (e.g., U.S. passport, birth certificate), state residency (e.g., mortgage statement, utility bill), and Social Security number (e.g., Social Security card, paystub). In addition, if your current name doesn't match the one on your proof of identity document, you must prove your legal name change (e.g., marriage certificate).

When states first implemented REAL ID recommendations, applicants were faced with delays and long wait times. However, many states have since streamlined the process by allowing applicants to start the application process online. For more information on applying for a REAL ID, you can visit your state's department of motor vehicles website or dhs.gov/real-id.

[1] Department of Homeland Security, REAL ID Compliance Extension Updates, October 2018