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Spring has finally arrived!

The real takeaway from the drop at the end of 2018 and the rebound to start this year is that volatility can happen quickly. The past six months highlight the importance of creating well-diversified portfolios that can withstand short-term volatility. Our team emphasizes proper asset allocation and provides careful analysis of our client's portfolio to ensure proper diversification without excess stock overlap.

Our team of advisors are here to help:

Stephen L. Rudolph, MBA, CPA, AIF®, President

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2nd Quarter 2019

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How Does Your Employer's Retirement Plan Compare?

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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



To compare your plan's offerings and features with those described in this article, review your plan materials or ask your Human Resources Department for its Summary Plan Description.

Diversification is a strategy that helps manage investment risk; it does not guarantee a profit or protect against investment loss.

Mutual funds and target-date funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from the fund company or your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

How Does Your Employer's Retirement Plan Compare?

Each year, the Plan Sponsor Council of America (PSCA) surveys employers to gauge trends in retirement plan features and participation. Results are used by employers and plan participants to benchmark their plans against overall averages. How does your plan compare to the most recent survey results, released at the end of 2018?¹

Participation and savings rates

Plan participation (that is, the percentage of participants contributing to the plan) was on the rise, increasing from 77% in 2010 to 85% in 2017. Employees in the financial, insurance and real estate, manufacturing, and technology and telecommunications sectors were most likely to contribute (more than 85% of eligible employees), while those in the transportation, utility, and energy sectors (75.6%) and wholesale distribution and retail trade sectors (59.7%) were least likely.

The average amount participants contributed to their plans rose from 6.2% of salary in 2010 to 7.1% in 2017. Participants in the health-care sector contributed the most (8.7%), while those in durable goods manufacturing contributed the least (6.3%).

Roth option on the rise

Roth contributions are growing in popularity among 401(k) plans. Unlike traditional pre-tax contributions that are deducted from a paycheck before income taxes are assessed, Roth contributions are made in after-tax dollars. The primary benefit is that "qualified" withdrawals from a Roth account are tax-free. A withdrawal is qualified if the account has been held for at least five years and it has been made after the participant reaches age 59½, dies, or becomes disabled.

The percentage of plans allowing participants to make Roth contributions rose from 45.5% in 2010 to nearly 70% in 2017. Almost 20% of eligible employees made Roth contributions.

Company contributions

Nearly all employers surveyed contributed to their employees' plans through matching contributions, non-matching contributions, or a combination of both. And it appears that employers have become more generous over time, as the average company contribution rose from 3.5% in 2010 to 5.1% in 2017. Moreover, many employers impose a vesting schedule on their contributions through which plan participants earn the right to keep the company contributions over time. In 2017, less than 40% of companies allowed their employees to become immediately vested in the company contributions.

Investment options

When it comes to your retirement plan, how many options would you prefer on your investment menu? Too few funds could limit the opportunity for an appropriate level of diversification, while too many funds might cause an overwhelming decision-making process. So what's the "right" number?

According to an article in *InvestmentNews*, an appropriate number of investment options (typically mutual funds) is 15 to 20.² And according to the PSCA, employers seem to be following this guideline, as the average number of funds offered among survey respondents was 20.

The most common types of funds offered were indexed domestic equity funds (84.6% of plans), followed by actively managed domestic equity funds (83.6%), actively managed domestic bond funds (78.9%), and actively managed international/global equity funds (77.9%). Target-date funds — those that offer a diversified mix of different types of investments based on a participant's target retirement date — were offered in 70.6% of plans.

Overall, the two most popular types of funds, based on percentage of assets invested, were target-date funds and actively managed domestic equity funds.³

¹ PSCA, 61st Annual Survey

² *InvestmentNews*, February 16, 2018

³ The return and principal value of mutual funds fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost. A bond fund is a mutual fund that comprises mostly bonds and other debt instruments. The mix of bonds depends on each fund's focus and stated objectives. Bond funds are subject to the same inflation, interest rate, and credit risks as their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country; this may result in greater share price volatility. The target date is the approximate date when an investor plans to withdraw money. The mix of investments in the target-date fund becomes more conservative as the date grows closer. The further away the date, the greater the risks the fund usually takes. The principal value is not guaranteed at any time, including on or after the target date. There is no guarantee that a target-date fund will meet its stated objectives. It is important to note that no two target-date funds with the same target date are alike. Typically, they won't have the same asset allocation, investment holdings, turnover rate, or glide path.

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What are some ways to prepare financially for severe weather?

Floods, tornadoes, lightning, and hail are common spring events in many parts of the country and may result in widespread damage. Severe weather often strikes suddenly, so take measures now to protect yourself and your property.

Review your insurance coverage. Make sure your homeowners and auto insurance coverage is sufficient. While standard homeowners insurance covers losses from fire, lightning, and hail (up to policy limits), you may need to buy separate coverage for hurricanes, floods, earthquakes, and other disasters. Consult your insurance professional, who can help determine whether you have adequate coverage for the risks you face.

Create a financial emergency kit. Collect financial records and documents that may help you recover more quickly after a disaster. This kit might contain a list of key contacts and copies of important documents, including identification cards, birth and marriage certificates, insurance policies, home inventories, wills, trusts, and deeds. Make sure your kit is stored in a secure fireproof and

waterproof container that is accessible and easy to carry. The Emergency Financial First Aid Kit, available online at [ready.gov](https://www.ready.gov), offers a number of checklists and forms that may help you prepare your own kit, as well as tips to guide you through the process.

Protect your assets. Take some commonsense precautions to safeguard your home, vehicles, and other possessions against damage. For example, to prepare for a possible power outage, you might want to install an emergency generator and a sump pump with a battery backup if you have a basement or garage that is prone to flooding. Inspect your yard and make sure you have somewhere to store loose objects (e.g., grills and patio furniture) in a hurry, cut down overhanging tree limbs, and clean your gutters and down spouts. Check your home's exterior, too, to make sure that your roof and siding are in good condition, and invest in storm windows, doors, and shutters. In addition, make sure you know how to turn off your gas, electricity, and water should an emergency arise. And if you have a garage, make sure your vehicles are parked inside when a storm is imminent.



What are some tips for creating a home inventory?

Imagine having to remember and describe every item in your home, especially after you've been the victim of a fire, theft, or natural disaster.

Rather than relying on your memory, you may want to prepare a home inventory — a detailed record of all your personal property. This record can help substantiate an insurance claim, support a police report when items are stolen, or prove a loss to the IRS. Here are some tips to get started.

Tour your property. A simple way to complete your inventory is to make a visual record of your belongings. Take a video of the contents of each room in your home and spaces where you have items stored, such as a basement, cellar, garage, or shed. Be sure to open cabinets, closets, and drawers, and pay special attention to valuable and hard-to-replace items. You can also use the tried-and-true, low-tech method of writing everything down in a notebook, or use a combined approach. Mobile inventory apps and software programs are available to guide you through the process.

Be thorough. Your home inventory should provide as many details as possible. For

example, include purchase dates, estimated values, and serial and model numbers. If possible, locate receipts to support the cost of big-ticket items and attach copies of appraisals for valuables such as antiques, collectibles, and jewelry.

Keep it safe. In addition to keeping a copy of your inventory at your home where you can easily access it, store a copy elsewhere to protect it in the event that your home is damaged by a flood, fire, or other disaster. This might mean putting it in a safe deposit box, giving it to a trusted friend or family member for safekeeping, or storing it either on an external storage device that you can take with you or on a cloud-based service that provides easy and secure access.

Update it periodically. When you obtain a valuable or important item, add it to your inventory as soon as possible. Review your home inventory at least once a year for accuracy. You can also share it annually with your insurance agent or representative to help determine whether your policy coverages and limits are still adequate.