Taking Control of Your Finances: A Plan to Reduce Debt and Build Savings

Worksheet 1: Personal Balance Sheet

Liquid Assets	Balance	Liabilities	Interest Rate	Balance	Monthly Payment
Bank accounts		Credit cards			
Investment accounts					
Other		Auto loans			
		School loans			
		Other loans			
TOTAL LIQUID ASSETS					
Upcoming purchases					
		Mortgage			
		Other			
ASSETS LESS PURCHASES					
Subtract 3 months' living expenses					
NET ASSETS:		TOTAL DEBT:			

*Excluding IRAs and employer-sponsored retirement accounts.

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Worksheet 2: Is Your Debt Level Too High?

Tally your total monthly payments for all your debts, excluding your rent or mortgage payments. Divide that figure by your monthly after-tax income and multiply by 100 to get the percentage of your income that goes to paying your debts each month.

Calculate Your Debt-to-Income Ratio

___________________________ ÷ _______________________ x 100 = ______________%

total monthly debt payments	monthly after-tax income	debt-to-income ratio

If your debt-to-income ratio is

Less than 15: You may be managing your credit well.

Between 15 and 20: You may be on the borderline.

Greater than 20: You could be in over your head.

Are You Overextended?

How many of these scenarios apply to you?

- ☐ You don't know, and don't want to know, how much you owe.
- ☐ You borrow for things you once paid for in cash.
- ☐ You have to juggle other bills just to pay the minimum charges on your credit cards each month.
- ☐ Each monthly credit balance is higher than the last.
- ☐ You pay bills using money intended for other needs.
- ☐ Creditors are sending overdue notices.
- ☐ Your savings or emergency funds are not enough to cover three months of living expenses.

If you checked off even one scenario, you may be overextended, or on the borderline of getting there.

Worksheet 3: Monthly Spending

To help get a clear picture of where you are spending most of your income, list all your monthly expenditures here. Use the categories given as a guideline, but feel free to add your own where needed. Tally up your total monthly outlay and compare it with your monthly income.

Category	Includes	Total Cost
FIXED EXPENSES		
Debt	credit card, other payments	
Savings		
Mortgage or rent		
Insurance	auto, health, other	
Other fixed expenses		
Total fixed expenses		
VARIABLE EXPENSES		
Groceries	from supermarket or in bulk	
Snacks/fast food	coffee, soda, lunch	
Heat		
Electricity		
Cable TV/Internet		
Phone/cell		
Child care		
Medical care		
Newspaper/magazines	subscriptions	
Home repair	plumbing, electrical, etc.	
Clothing		
Household necessities	cleaning products, etc.	
Tickets	movies, theatre, etc.	
Purchases	CDs, records, etc.	
Dining out		
Personal vehicle	maintenance, repairs, gas	
Transportation	subway, bus fares, taxi fares	
Gifts, contributions		
Travel/vacation		
Hobbies	dues for organizations	
Other variable expenses		
Total variable expenses		

TOTAL ____________________

Monthly Income (after taxes) ____________________

Worksheet 4: Monthly Budget

Category	Includes	Total Cost
FIXED EXPENSES		
Debt	credit card, other payments	
Savings		
Mortgage or rent		
Insurance	auto, health, other	
Other fixed expenses		
Total fixed expenses		
VARIABLE EXPENSES		
Groceries	from supermarket or in bulk	
Snacks/fast food	coffee, soda, lunch	
Heat		
Electricity		
Cable TV/Internet		
Phone/cell		
Child care		
Medical care		
Newspaper/magazines	subscriptions	
Home repair	plumbing, electrical, etc.	
Clothing		
Household necessities	cleaning products, etc.	
Tickets	movies, theatre, etc.	
Purchases	CDs, records, etc.	
Dining out		
Personal vehicle	maintenance, repairs, gas	
Transportation	subway, bus fares, taxi fares	
Gifts, contributions		
Travel/vacation		
Hobbies	dues for organizations	
Other variable expenses		
Total variable expenses		

TOTAL ____________________

Monthly Income (after taxes) ____________________

Worksheet 5: 12-Month Spending Plan

Using the information about your spending from the previous worksheets, create a blueprint for a yearly budget. Comparisons of planned and actual savings will help you monitor your progress. Keep in mind that you may need to make slight adjustments to your plan.

	January	February	March	April	May	June
Income						
Salary						
Bonus/commissions						
Interest/dividends						
Rents/royalties						
Other						
Other						
Total income						
Planned expenses						
Planned savings						
Actual expenses						
Actual savings						

	July	August	Sept.	October	Nov.	Dec.
Income						
Salary						
Bonus/commissions						
Interest/dividends						
Rents/royalties						
Other						
Other						
Total income						
Planned expenses						
Planned savings						
Actual expenses						
Actual savings						

Worksheet 6: How Long Will It Take to Pay Off Your Debt?

Using one worksheet for each debt you carry, calculate how long it will take to pay off each balance. Remember that the longer it takes to pay off your debt, the more it costs you in interest.

Debt Repayment Worksheet

	Debt Actual	Debt Budgeted	Example
How much do you pay each month?	A	A	$50
What is your current balance?	B	B	$2,000
Divide monthly payments, A, by current balance, B.	C	C	$50 ÷ $2,000 = .025
What is your annual percentage rate (APR)?	D	D	10%
In the table below, find where your answer to C would fall in the row corresponding to your APR. Match to number of years.	E	E	4 years

Years to Repay*

Annual Percentage Rate	1	2	3	4	5	6	7	8	9	10
8%	.0864	.0449	.0311	.0243	.0201	.0174	.0155	.0140	.0129	.0121
9%	.0868	.0453	.0316	.0247	.0206	.0179	.0160	.0145	.0134	.0126
10%	.0872	.0458	.0320	.0252	.0211	.0184	.0165	.0150	.0140	.0131
11%	.0876	.0462	.0324	.0256	.0211	.0189	.0170	.0156	.0145	.0136
12%	.0880	.0466	.0329	.0261	.0220	.0194	.0175	.0161	.0150	.0142
13%	.0884	.0470	.0333	.0265	.0225	.0199	.0180	.0166	.0156	.0148
14%	.0888	.0475	.0338	.0270	.0230	.0204	.0185	.0172	.0161	.0153
15%	.0891	.0479	.0342	.0275	.0235	.0209	.0191	.0177	.0167	.0159
16%	.0895	.0483	.0347	.0280	.0240	.0214	.0196	.0183	.0173	.0165
17%	.0899	.0488	.0352	.0285	.0245	.0219	.0202	.0189	.0179	.0171
18%	.0903	.0492	.0356	.0289	.0250	.0225	.0207	.0194	.0185	.0178
19%	.0907	.0496	.0361	.0294	.0255	.0230	.0213	.0200	.0191	.0184
20%	.0911	.0501	.0366	.0299	.0261	.0236	.0218	.0206	.0197	.0190
21%	.0915	.0505	.0370	.0304	.0266	.0241	.0224	.0212	.0203	.0196
22%	.0919	.0509	.0375	.0309	.0271	.0247	.0230	.0218	.0209	.0203

*Assumes an annual rate compounded monthly and made payments at the beginning of each month.

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12 COMMON FINANCIAL MISTAKES TO AVOID

Just as to-do lists can be a key part of planning, do-not-do lists can be helpful reminders to avoid mistakes that others have made.

1. **Impulse investing.** Avoid investing based on a whim or a tip. Don't invest a certain way just because a friend or colleague does. Instead, be thoughtful and strategic.
2. **Lacking an overall plan or strategy.** Don't look at financial decisions in isolation. Think about how they affect or are affected by other elements. For example, when deciding on your asset allocation, keep all of your investments in mind, not just those in a particular account.
3. **Not paying yourself first.** Saving should be your top priority. Put money aside with every paycheck. It's easy to do through payroll deduction or a similar automatic system.
4. **Not taking advantage of time.** Compound growth is like a gift from Father Time. If you wait too long to save for retirement, you will have lost tremendous potential growth. As a result, you might have to save significantly more later in your career, when many financial needs compete for your attention and your budget.
5. **Not paying attention to risk.** Risk and return tend to go hand-in-hand. Investments that offer higher potential returns, such as stocks, have elevated levels of risk. In contrast, conservative investments, such as money market accounts or stable-value investments, fluctuate very little, but they offer limited growth potential. Think about risks, as well as expected returns.
6. **Not diversifying.** The more concentrated your investments, the higher the risk of a substantial loss. Manage your risk by owning a variety of investments, and don't invest too heavily in your employer's stock.[1]
7. **Relying on someone else to handle your investments.** It's fine to consult with someone whose opinion you respect, but be ready to question anyone's suggestions. Ultimately, you must decide for yourself on the best strategy for your situation.

8. **Not working with your spouse toward the same goals.** Couples should talk about their financial goals and coordinate their investing strategies and budgetary practices.
9. **Not maximizing your retirement plan.** Your employer-sponsored retirement plan is one of your most important benefits. If you receive a matching contribution from your employer, contribute at least enough to the account to qualify for the full match. Anything less is like walking away from free money.
10. **Cashing out or borrowing from your 401(k) account.** In a financial emergency, you might have no choice but to make an early withdrawal from your retirement account. But taking money from your account is like borrowing from your future to pay for your present needs. Look for alternatives before you resort to that.

(continued)

[1] There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

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11. **Ignoring tax or inflation when estimating your net retirement income.** For anything other than a tax-free account, such as a Roth IRA or Roth 401(k), you'll owe taxes on your withdrawals. Similarly, remember that inflation will reduce your purchasing power.
12. **Not following your investments.** Monitor your investments and make sure they are performing roughly as you expect them to do. If they are not, try to understand why, and be ready to make changes if you need to.

Wherever your retirement goals take you, we can help you get there.
Get in touch with a retirement specialist today.

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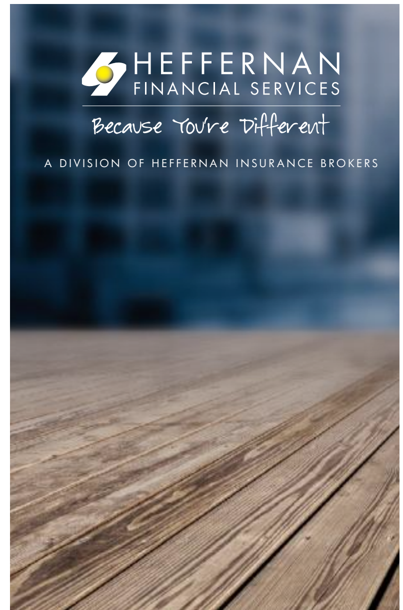
Building Your Investment Strategy
Using Riskalyze



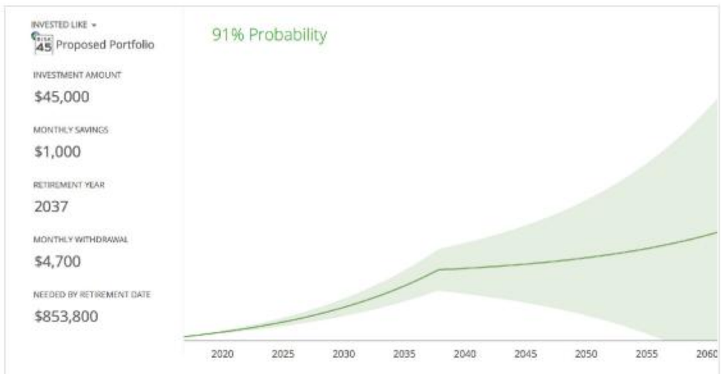
Riskalyze is cutting edge technology that identifies your acceptable levels of risk and reward

How much risk do you want?

We'll take a quantitative approach to pinpointing your Risk Number by going through a series of objective exercises based on actual dollar amounts.

How much risk do you need?

We can chart a path to retirement using a simple, intuitive approach. We'll visualize the probability of a successful retirement and adjust in realtime.



Screenshots: Risk Number® and sample six-month 95% probability range (left), and a sample Retirement Map (right).

Capture Your Risk Number®

The first step is to answer a 5-minute questionnaire that covers topics such as portfolio size, top financial goals, and what you're willing to risk for potential gains. Then we'll pinpoint your exact Risk Number to guide our decision making process.

Align Your Portfolio

After pinpointing your Risk Number, we'll craft a portfolio that aligns with your personal preferences and priorities, allowing you to feel comfortable with your expected outcomes. The resulting proposed portfolio will include projections for the potential gains and losses we should expect over time.

Define Your Retirement Goals

We will also review your progress toward your financial goals by building a Retirement Map.

When we are finished, you'll better understand what we can do to increase the proba-bility of success.

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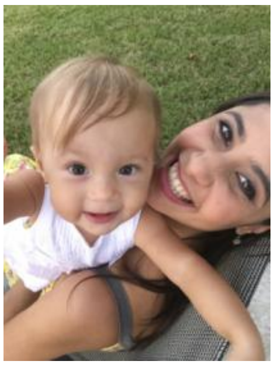
Key Estate Planning Documents You Need



Benefits of a will:

- *Distributes property according to your wishes*
- *Names an executor to settle your estate*
- *Names a guardian for minor children*

There are five estate planning documents you may need, regardless of your age, health, or wealth:

1. Durable power of attorney
2. Advance medical directives
3. Will
4. Letter of instruction
5. Living trust

The last document, a living trust, isn't always necessary, but it's included here because it's a vital component of many estate plans.

Durable power of attorney

A durable power of attorney (DPOA) can help protect your property in the event you become physically unable or mentally incompetent to handle financial matters. If no one is ready to look after your financial affairs when you can't, your property may be wasted, abused, or lost.

A DPOA allows you to authorize someone else to act on your behalf, so he or she can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

There are two types of DPOAs: (1) an immediate DPOA, which is effective immediately (this may be appropriate, for example, if you face a serious operation or illness), and (2) a springing DPOA, which is not effective unless you have become incapacitated.

Caution: *A springing DPOA is not permitted in some states, so you'll want to check with an attorney.*

Advance medical directives

Advance medical directives let others know what medical treatment you would want, or allows someone to make medical decisions for you, in the event you can't express your wishes yourself. If you don't have an advance medical directive, medical care providers must prolong your life using artificial means, if necessary. With today's technology, physicians can sustain you for days and weeks (if not months or even years).

There are three types of advance medical directives. Each state allows only a certain type (or types). You may find that one, two, or all three types are necessary to carry out all of your wishes for medical treatment. (Just make sure all documents are consistent.)

First, a living will allows you to approve or decline certain types of medical care, even if you will die as a result of that choice. In most states, living wills take effect only under certain circumstances, such as terminal injury or illness. Generally, one can be used only to decline medical treatment that "serves only to postpone the moment of death." In those states that do not allow living wills, you may still want to have one to serve as evidence of your wishes.

Second, a durable power of attorney for health care (known as a health-care proxy in some states) allows you to appoint a representative to make medical decisions for you. You decide how much power your representative will or won't have.

Finally, a Do Not Resuscitate order (DNR) is a doctor's order that tells medical personnel not to perform CPR if you go into cardiac arrest. There are two types of DNRs. One is effective only while you are hospitalized. The other is used while you are outside the hospital.

Will

A will is often said to be the cornerstone of any estate plan. The main purpose of a will is to disburse property to heirs after your death. If you don't leave a will, disbursements will be made according to state law, which might not be what you would want.

There are two other equally important aspects of a will:

1. You can name the person (executor) who will manage and settle your estate. If you do not name someone, the court will appoint an administrator, who might not be someone you would choose.

Other benefits of a living trust:

- *Gives someone the power to manage your property if you should become incapacitated*
- *Lets a professional manage your property for you*
- *May circumvent state laws that limit your ability to give to charity, or force you to leave a certain percentage of your property to your spouse*

2. You can name a legal guardian for minor children or dependents with special needs. If you don't appoint a guardian, the state will appoint one for you.

Keep in mind that a will is a legal document, and the courts are very reluctant to overturn any provisions within it. Therefore, it's crucial that your will be well written and articulated, and properly executed under your state's laws. It's also important to keep your will up-to-date.

Letter of instruction

A letter of instruction (also called a testamentary letter or side letter) is an informal, nonlegal document that generally accompanies your will and is used to express your personal thoughts and directions regarding what is in the will (or about other things, such as your burial wishes or where to locate other documents). This can be the most helpful document you leave for your family members and your executor.

Unlike your will, a letter of instruction remains private. Therefore, it is an opportunity to say the things you would rather not make public.

A letter of instruction is not a substitute for a will. Any directions you include in the letter are only suggestions and are not binding. The people to whom you address the letter may follow or disregard any instructions.

Living trust

A living trust (also known as a revocable or inter vivos trust) is a separate legal entity you create to own property, such as your home or investments. The trust is called a living trust because it's meant to function while you're alive. You control the property in the trust, and, whenever you wish, you can change the trust terms, transfer property in and out of the trust, or end the trust altogether.

Not everyone needs a living trust, but it can be used to accomplish various purposes. The primary function is typically to avoid probate. This is possible because property in a living trust is not included in the probate estate.

Depending on your situation and your state's laws, the probate process can be simple, easy, and inexpensive, or it can be relatively complex, resulting in delay and expense. This may be the case, for instance, if you own property in more than one state or in a foreign country, or have heirs that live overseas.

Further, probate takes time, and your property generally won't be distributed until the process is completed. A small family allowance is sometimes paid, but it may be insufficient to provide for a family's ongoing needs. Transferring property through a living trust provides for a quicker, almost immediate transfer of property to those who need it.
Probate can also interfere with the management of property like a closely held business or stock portfolio. Although your executor is responsible for managing the property until probate is completed, he or she may not have the expertise or authority to make significant management decisions, and the property may lose value. Transferring the property with a living trust can result in a smoother transition in management.

Finally, avoiding probate may be desirable if you're concerned about privacy. Probated documents (e.g., will, inventory) become a matter of public record. Generally, a trust document does not.

Caution: *Although a living trust transfers property like a will, you should still also have a will because the trust will be unable to accomplish certain things that only a will can, such as naming an executor or a guardian for minor children.*

Tip: *There are other ways to avoid the probate process besides creating a living trust, such as titling property jointly.*

Caution: *Living trusts do not generally minimize estate taxes or protect property from future creditors or ex-spouses.*

THAT'S LIFE

Life Insurance Plays a Key Role in the Financial Planning Process

Today, life insurance is a key part of a solid financial plan.

You can use life insurance to leave much-needed income to your survivors, provide for your children's education, pay off your mortgage, and simplify the transfer of assets. It can also be used to replace wealth lost due to the expenses and taxes that may follow your death, and to make gifts to charity at relatively little cost to you.

There are two basic types of insurance: temporary and permanent, with many variations within each type.

Temporary (term) insurance

As a general rule, people purchase term-insurance policies to insure their families for a given period of time, usually no longer than 15 to 20 years. For instance, term insurance is often purchased by homeowners carrying a mortgage or by parents of young children. Term insurance is also called pure insurance—it consists of a death benefit only. It's inexpensive compared to other types of life insurance products.

Permanent insurance

If your insurance needs are longer than approximately 20 years, it's usually more cost effective to use a "permanent" life insurance policy. Whole life and universal life are common types of permanent life insurance. These types of products contain an investment component, and can allow you to accumulate savings on a tax-deferred basis. Some allow you to borrow against any cash value you have built up in the policy.[1]

There are many different types of life insurance products to fit your own personal needs and situation. Check out the following resources to learn more. In addition, you may want to retain the services of a professional financial planner to help you determine your life insurance needs.

[1] Policy loans accrue interest and will reduce the death benefit. A policy loan could result in tax consequences if the policy lapses or is surrendered while a loan is outstanding.

Typical life insurance considerations at different life stages

Age 30

Factors to consider in the early years:

- Young children
- High debt
- House mortgage
- Loss of income would be devastating
- Children's education

Age 55

Factors to consider in the later years:

- Children in college
- Lower debt
- Reverse mortgages
- Retirement income needed
- Simplify transfer of assets

(continued)

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Once in a lifetime

Go to: www.lifehappens.org/insurance-overview/life-insurance/calculate-your-needs to access an interactive calculator that will help you determine a ballpark estimate of your life insurance needs. In addition, have your spouse or significant other perform the same exercise. Enter the information here for future planning purposes:

My total life insurance needs: $________________

My spouse or significant other's life insurance needs: $______________

Life Insurance Learning Resources

Insurance for Dummies, by Jack Hungelmann

Insurance Information Institute www.iii.org/insurance-topics/life-insurance

Life Happens http://www.lifehappens.org/insurance-overview/life-insurance/

Wherever your retirement goals take you, we can help you get there. Get in touch with a retirement specialist today.

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RP-07837-0118 Tracking #1-689994 (Exp. 01/20)

HANDLE WITH CARE

Planning for the Cost of Long-Term Care Is an Important Part of Retirement Planning

Thinking about how you'll pay for long-term care should be a part of everyone's retirement planning process.

> A recent study found that most Americans don't have any idea of the cost of long-term care. Even more alarming, many Americans believe that if they do need long-term care, the government will pay for it. In reality, Medicare typically covers only three months of nursing home care, and only if you spend time in a hospital first.

Medicaid's coverage of long-term care doesn't start until you have exhausted nearly all your savings. In addition, while Medicaid covers nursing home care for people who qualify, coverage of in-home health services is limited. And it doesn't cover assisted living at all. Qualifying for Medicaid is more difficult than ever.

Good long-term care planning could help give you more options should you require institutional care. Following are some steps to consider:

Long-term care insurance. These policies are still relatively new, but they're becoming more flexible. Along with nursing home care, some policies cover in-home care and the cost of an assisted living facility. The cost varies, depending on your age, when you buy the policy and the services covered.

The younger you are, the lower your premiums, which is why many financial planners suggest buying a policy when you are in your 50s. However, before you buy a policy, make sure you can afford to pay the premiums for many years. That's because it could be a long time before you need long-term care. Many people never need nursing home care, and even those who do often stay only a few months.

Family care. Will you be relying on relatives to care for you? If so, there are some key issues to consider. Do your children or other family members live nearby? Will you pay them? Will you feel guilt over burdening them with your health problems? Will they feel burdened taking it all on? There are some really hard questions that will need to be put on the table when considering family care.

(continued)

Reverse mortgages. A reverse mortgage is a loan against your home that doesn't need to be repaid until you move, sell or die. You can receive the money in a lump sum, line of credit or monthly payments for the rest of your life.

You must be at least age 62 to qualify for a reverse mortgage. Because closing costs are typically high—up to 5% of the home's value—they're not a wise idea for homeowners who plan to move in less than five years. But if you want to remain at home, a reverse mortgage could provide money for in-home care or cosmetic adjustments to your home such as wheelchair access.

Wherever your retirement goals take you, we can help you get there.
Get in touch with a retirement specialist today.

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FASTEN YOUR SEATBELT

Surviving Market Turbulence

The current economic downturn and the turbulent investment markets can make people nervous. Recognize these events as a normal, although undesirable, part of the economic and investment cycles. With that in mind, following are some tips for investors in a turbulent time.

Don't panic. Some people may be tempted to bail out of their stock investments if markets are having a particularly rough ride. Selling solely because the stock market tumbles may be the worst thing to do.

Stay invested. If you're investing for a long-term goal —such as a retirement that begins in another decade or more and could last two or three decades—you'll have plenty of time to ride out market cycles. As the table below shows, missing some of the best days in the market can significantly reduce your gains over the years. An investor who missed the market's best 15 days for the 24-year period ending December 31, 2015, earned an average of 4.06% less per year than an investor who never left the market through all of the ups and downs.

Missing the Best Days in the Market Substantially Reduced Returns		
January 1, 1991 – December 31, 2015	S&P 500 Annualized Total Returns	Growth of $10,000
All trading days	9.82%	$103,951
Minus 1 best day	9.34%	$93,163
Minus 5 best days	8.03%	$68,691
Minus 15 best days	5.76%	$40,591
Minus 25 best days	3.92%	$26,137

As of 12/31/2015. Source: Standard and Poor's and Kmotion Research. This example is for illustrative purposes only and is not indicative of the performance of any investment. It does not reflect the impact of taxes, management fees, or sales charges. The Standard and Poor's 500 Index (S&P 500) is a weighted, unmanaged index composed of 500 stocks believed to be a broad indicator of stock price movements. Investors cannot buy or invest directly in market indexes or averages. Past performance is no guarantee of future results.

If the stock market posted gains and losses every other year, imagine what you would lose by selling after a dip. Where would you put your money? A money market account might earn a steady 1.5%, but, that won't even keep up with the average long-term inflation rate of 3.1%.

Keep a long-term perspective. It's easiest to stay the course if you focus on your major life goals and not on the market's day-to-day or month-to-month movements. Look at your quarterly account statements, stay on top of major current financial events, and plan to do a thorough review of your investments—asset allocation, investment performance and progress towards your goals—once a year.

(continued)

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Dollar cost average. One of the most effective approaches to investing is dollar cost averaging. You simply commit to investing the same dollar amount on a regular basis. When the price of shares in a stock or investment portfolio rises, you'll buy fewer shares, and when the price dips, you'll buy more.[1]

Maintain a diversified portfolio. Diversification lowers your risk because historically not all parts of the market move in the same direction at the same time. Losses in one area may be balanced out by gains elsewhere.[2]

Know your risk tolerance. If you find stock investments to be too risky for your taste—for example, if you can't sleep at night because you're worrying about your stocks,—maybe you should consider a safer, steadier ride.

Make thoughtful moves. If you make changes to your investments, do so in a thoughtful way, and after careful consideration. Talking with a financial advisor could be a good first move.

[1] Dollar cost averaging involves continuous investment in securities regardless of fluctuation in price levels of such securities. An investor should consider their ability to continue purchasing through fluctuating price levels. Such a plan does not assure a profit and does not protect against loss in declining markets.

[2] There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Wherever your retirement goals take you, we can help you get there.
Get in touch with a retirement specialist today.

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HEFFERNAN RETIREMENT SERVICES
Because You're Different

Health Savings Accounts: Are They Just What the Doctor Ordered?

Most HSAs allow you to contribute through automatic transfers from a bank account or, if you're employed, through an automatic payroll deduction plan.

Are health insurance premiums taking too big of a bite out of your budget? Do you wish you had better control over how you spend your health-care dollars? If so, you may be interested in an alternative to traditional health insurance called a health savings account (HSA).

How does this health-care option work?

An HSA is a tax-advantaged account that's paired with a high-deductible health plan (HDHP). Let's look at how an HSA works with an HDHP to enable you to cover your current health-care costs and also save for your future needs.

Before opening an HSA, you must first enroll in an HDHP, either on your own or through your employer. An HDHP is "catastrophic" health coverage that pays benefits only after you've satisfied a high annual deductible. (Some preventative care, such as routine physicals, may be covered without being subject to the deductible). For 2019, the annual deductible for an HSA-qualified HDHP must be at least $1,350 for individual coverage and $2,700 for family coverage. However, your deductible may be higher, depending on the plan.

Once you've satisfied your deductible, the HDHP will provide comprehensive coverage for your medical expenses (though you may continue to owe co-payments or coinsurance costs until you reach your plan's annual out-of-pocket limit). A qualifying HDHP must limit annual out-of-pocket expenses (including the deductible) to no more than $6,750 for individual coverage and $13,500 for family coverage for 2019. Once this limit is reached, the HDHP will cover 100% of your costs, as outlined in your policy.

Because you're shouldering a greater portion of your health-care costs, you'll usually pay a much lower premium for an HDHP than for traditional health insurance, allowing you to contribute the premium dollars you're saving to your HSA. Your employer may also contribute to your HSA, or pay part of your HDHP premium. Then, when you need medical care, you can withdraw HSA funds to cover your expenses, or opt to pay your costs out-of-pocket if you want to save your account funds.

An HSA can be a powerful savings tool. 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. 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 substantial. However, HSAs aren't foolproof. If you have relatively high health expenses (especially within the first year or two of opening your account, before you've built up a balance), you could deplete your HSA or even face a shortfall.

How can an HSA help you save on taxes?

HSAs offer several valuable tax benefits:

- You may be able to make pretax contributions via payroll deduction through your employer, reducing your current income tax.
- If you make contributions on your own using after-tax dollars, they're deductible from your federal income tax (and perhaps from your state income tax) whether you itemize or not. You can also deduct contributions made on your behalf by family members.
- Contributions to your HSA, and any interest or earnings, grow tax deferred.
- Contributions and any earnings you withdraw will be tax free if they're used to pay qualified medical expenses.

Consult a tax professional if you have questions about the tax advantages offered by an HSA.

Can anyone open an HSA?

Any individual with qualifying HDHP coverage can open an HSA. However, you won't be eligible to open an HSA if you're already covered by another health plan (although some specialized health plans are exempt from this provision). You're also out of luck if you're 65 and enrolled in Medicare or if you can be claimed as a dependent on someone else's tax return.

How much can you contribute to an HSA?

For 2019, you can contribute up to $3,500 for individual coverage and $7,000 for family coverage. This annual limit applies to all contributions, whether they're made by you, your employer, or your family members. You can make contributions up to April 15th of the following year (i.e., you can make 2018 contributions up to April 15, 2019). If you're 55 or older, you may also be eligible to make "catch-up contributions" to your HSA, but you can't contribute anything once you reach age 65 and enroll in Medicare.

Can you invest your HSA funds?

HSAs typically offer several savings and investment options. These may include interest-earning savings, checking, and money market accounts, or investments such as stocks, bonds, and mutual funds that offer the potential to earn higher returns but carry more risk (including the risk of loss of principal). Make sure that you carefully consider the investment objectives, risks, charges, and expenses associated with each option before investing. A financial professional can help you decide which savings or investment options are appropriate.

How can you use your HSA funds?

You can use your HSA funds for many types of health-care expenses, including prescription drugs, eyeglasses, deductibles, and co-payments. Although you can't use funds to pay regular health insurance premiums, you can withdraw money to pay for specialized types of insurance such as long-term care insurance. IRS Publication 502 contains a list of allowable expenses.

There's no rule against using your HSA funds for expenses that aren't health-care related, but watch out--you'll pay a 20% penalty if you withdraw money and use it for nonqualified expenses, and you'll owe income taxes as well. Once you reach age 65, however, this penalty no longer applies, though you'll owe income taxes on any money you withdraw that isn't used for qualified medical expenses.

Questions to consider

- *How much will you save on your health insurance premium by enrolling in an HDHP? If you're currently paying a high premium for individual health insurance (perhaps because you're self-employed), your savings will be greater than if you currently have group coverage and your employer is paying a substantial portion of the premium.*
- *What will your annual out-of-pocket costs be under the HDHP you're considering? Estimate these based on your current health expenses. The lower your costs, the easier it may be to accumulate HSA funds.*
- *How much can you afford to contribute to your HSA every year? Contributing as much as you can on a regular basis is key to building up a cushion against future expenses.*
- *Will your employer contribute to your HSA? Employer contributions can help offset the increased financial risk that you're assuming by enrolling in an HDHP rather than traditional employer-sponsored health insurance.*
- *Are you willing to take on more responsibility for your own health care? For example, to achieve the maximum cost savings, you may need to research costs and negotiate fees with health providers when paying out-of-pocket.*
- *How does the coverage provided by the HDHP compare with your current health plan? Don't sacrifice coverage to save money. Read all plan materials to make sure you understand benefits, exclusions, and all costs.*
- *What tax savings might you expect? Tax savings will be greatest for individuals in higher income tax brackets. Ask your tax advisor or financial professional for help in determining how HSA contributions will impact your taxes.*

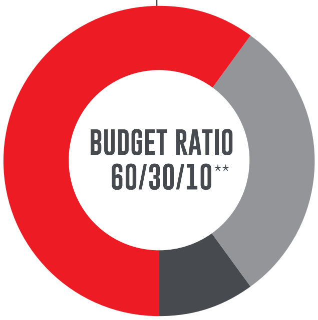
BUDGETING FOR LIFE

Smart budgeting comes down to three basic components: wants, needs, and savings. Harvard bankruptcy expert Elizabeth Warren coined the "50/30/20 rule" with her daughter, Amelia Warren Tyagi.* While not a hard and fast rule, this approach can be adapted to help build a stable blueprint for every stage of life.

COLLEGE

College is the first time we get to experience true financial independence. It's also the perfect opportunity to build and engrain smart financial habits to last a lifetime.

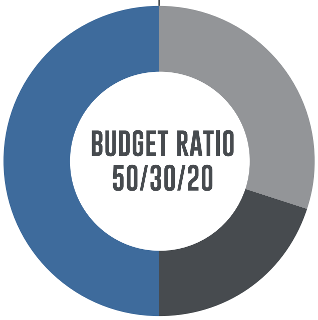
GET STARTED



MIDDLE YEARS

Mortgages, car payments, 401(k) contributions: Money in middle life can get a little more complicated, but a stable budget will help ensure you hit your goals today and tomorrow.

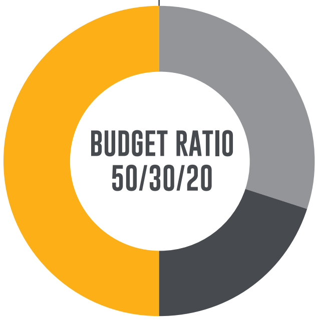
DIVE IN



RETIREMENT

Let's ditch the old march into old age and charge into retirement at full steam. It's time to consider how you'll pay for health care, your bucket list, and protect the ones you love.

PLAN FURTHER



* "The 50/30/20 Rule of Thumb for Budgeting", The Balance, 2018
** This ratio is generalized and is not specific to all situations.

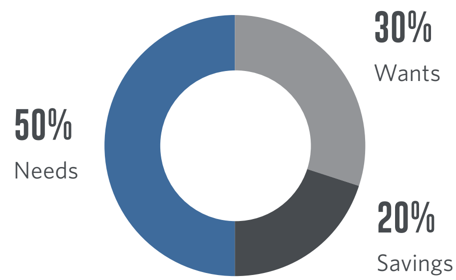
BUDGETING IN COLLEGE

Class is in session.

MONTHLY INCOME: ____________________

		YOUR MONTHLY EXPENSES	PERCENT OF YOUR INCOME
NEEDS 60%	Housing		0.00%
	Utilities		0.00%
	Car payment, insurance, and gas		0.00%
	Mobile phone and plan		0.00%
	Groceries		0.00%
	Medical/health		0.00%
	Credit Card Payments		0.00%
	Books and supplies		0.00%
	Streaming/cable		0.00%
	SUBTOTAL	$ 0.00	0.00%
WANTS 30%	Entertainment		0.00%
	Travel		0.00%
	Misc. expenses		0.00%
	SUBTOTAL	$ 0.00	0.00%
SAVINGS 10%	Emergency fund, savings account		0.00%
	SUBTOTAL	$ 0.00	0.00%
	TOTAL	$ 0.00	0.00%

BUDGETING FOR MIDDLE LIFE



Plan today, worry less tomorrow.

MONTHLY INCOME: ______________

		YOUR MONTHLY EXPENSES	PERCENT OF YOUR INCOME
NEEDS 50%	Housing (include property tax, insurance, and HOA)		0.00%
	Utilities		0.00%
	Car payment, insurance, and gas		0.00%
	Mobile phone and plan		0.00%
	Groceries		0.00%
	Medical/health		0.00%
	Credit card payments		0.00%
	Streaming/cable		0.00%
	SUBTOTAL	$ 0.00	0.00%
WANTS 30%	Entertainment		0.00%
	Travel		0.00%
	Charity/gifts		0.00%
	Misc. expenses		0.00%
	SUBTOTAL	$ 0.00	0.00%
SAVINGS 20%	Retirement savings		0.00%
	Other savings (i.e. house downpayment)		0.00%
	SUBTOTAL	$ 0.00	0.00%
	TOTAL	$ 0.00	0.00%

BUDGETING FOR RETIREMENT

Supercharge your future.

MONTHLY INCOME: ______________

		YOUR MONTHLY EXPENSES	PERCENT OF YOUR INCOME
NEEDS 50%	Housing (include property tax, insurance, and HOA)		0.00%
	Utilities		0.00%
	Car payment, insurance, and gas		0.00%
	Mobile phone and plan		0.00%
	Groceries		0.00%
	Medical/health		0.00%
	Credit card payments		0.00%
	Streaming/cable		0.00%
	SUBTOTAL	$ 0.00	0.00%
WANTS 30%	Entertainment		0.00%
	Travel		0.00%
	Charity/gifts		0.00%
	Misc. expenses		0.00%
	Childcare/education		0.00%
	Children's activities (sports, clubs, classes)		0.00%
	SUBTOTAL	$ 0.00	0.00%
SAVINGS 20%	Retirement savings		0.00%
	College savings		0.00%
	SUBTOTAL	$ 0.00	0.00%
	TOTAL	$ 0.00	0.00%

TAKING THE NEXT STEP

Budgeting is about more than just money. How we balance earning, spending, saving, and investing can contribute to our overall well-being.

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