Spring 2017

EPICCAPITAL

Where Experienced Advice Meets Actionable Ideas INSIGHTS

Inside this Issue

FEATURES

The Critical Illness Insurance Option

Insurance against a life-threatening illness and why people opt for it.

Ever hear of critical illness insurance? This isn't standard-issue disability insurance, but a cousin of sorts. With people living longer, it is a risk management option entering more people's lives.

The notable wrinkle about this type of insurance is that the insurer issues you a lump sum while you are alive.

Insurance for a prolonged health crisis. You buy critical illness insurance to help you out in case you are diagnosed with, suffer from, or experience a serious, potentially life-threatening health concern. Now, what does an insurer define as "serious" or "life-threatening?" That varies.[1,2]

Events or illnesses that often qualify include organ transplants, open-heart surgeries, deafness or blindness, Alzheimer's disease, heart attacks, paralysis or the loss of limbs, serious cancers and other maladies. Many non-fatal, but trying conditions also fall within the category.[1,2]

The idea is that you will use the payout to get through the crisis financially – the treatment, the surgery, the costs incurred. The cash premium is either paid directly to you, or to someone that you designate.

A lump sum to use as you see fit. While critical illness insurance pays out a lump sum to the ill, insured party, there are usually no strings attached to the money. It usually does not have to be used for medical payments. The money is tax-free, and you can use it to pay hospital bills, living expenses, business expenses – whatever costs you need or want to pay in a time of crisis.[1,2]

Things to remember. Critical illness insurance policies only pay out if you come down with one of the stipulated illnesses. This is why many people do not purchase them. However, with lifespans extending, many people recognize that more years may give them more chances to encounter a serious but survivable illness.[1,2]

Key Estate Planning Mistakes to Avoid

Too many people make these common errors

Many affluent professionals and business owners put estate planning on hold. Only the courts and lawyers stand to benefit from their procrastination. While inaction is the biggest estate planning error, several other major mistakes can occur. The following blunders can lead to major problems.

> *"Beneficiary designations have an advantage – they allow assets to transfer to heirs without going through probate."*

Failing to revise an estate plan after a spouse or child dies. This is truly a devastating event, and the grief that follows may be so deep and prolonged that attention may not be paid to this. A death in the family commonly requires a change in the terms of how family assets will be distributed. Without an update, questions (and squabbles) may emerge later.

Going years without updating beneficiaries. Beneficiary designations on qualified retirement plans and life insurance policies usually override bequests made in wills or trusts. Many people never review beneficiary designations over time, and the estate planning consequences of this inattention can be serious. For example, a woman can leave an IRA to her granddaughter in a will, but if her ex-husband is listed as the primary beneficiary of that IRA, those IRA assets will go to him per the beneficiary form. Beneficiary designations have an advantage – they allow assets to transfer to heirs without going through probate. If beneficiary designations are outdated, that advantage matters little.[1,2]

Thinking of a will as a shield against probate. Having a will in place does not automatically prevent assets from being probated. A living trust is designed to provide that kind of protection for assets; a will is not. An individual can clearly express "who gets what" in a will, yet end up having the courts determine the distribution of his or her assets.[2]

Supposing minor heirs will handle money well when they become young adults. There are multi-millionaires who go no further than a will when it comes to estate planning. When a will is the only estate planning tool directing the transfer of assets at death, assets can transfer to heirs aged 18 or older in many states without prohibitions. Imagine an 18-year-old inheriting several million dollars in liquid or illiquid assets. How many 18-year-olds (or 25-year-olds, for that matter) have the skill set to manage that kind of inheritance? If a trust exists and a trustee can control the distribution of assets to heirs, then situations such as these may be averted. A well-written trust may also help to prevent arguments among young heirs about who was meant to receive this or that asset.[3]

Too many people do too little estate planning. Avoid joining their ranks, and plan thoroughly to avoid these all-too-frequent mistakes.

Tax Rules on Rental Property

Minor inflation means small, but notable, changes for the new year.

Buying or selling income property has definite tax consequences. A taxpayer should clearly understand them, whether he or she intends to acquire a property or put one on the market.

A sale of income property incurs either a capital gain or loss. If you profit from the sale of income property, that profit is considered fully taxable by the Internal Revenue Service. Fortunately, if you have owned that property for at least a year, you will pay only capital gains tax on those profits rather than income tax.[1]

Your capital gain is determined by subtracting the adjusted basis of the property (i.e., the price you paid for it, plus the total of any renovations, closing costs, and eligible legal fees) from the sale price. For most taxpayers, the capital gains rate is but 15%. If you sell an investment property for a capital gain of $30,000 and your capital gains rate is 15%, you will pay $4,500 of capital gains tax from the sale.[1]

Depreciation can factor into this. If the market turns south and you can deduct $20,000 in depreciation within your ownership period, then your capital gain from the sale is $10,000 instead of $30,000.[2]

Should you happen to sell one investment property at a gain and another at a loss in the same year, you can subtract your capital loss from your capital gain, resulting in a net capital gain or loss for that tax year.[1]

Should you buy & hold, you could qualify for the homeowner exclusion. If you live in an investment property for two or more years during a five-year period, the I.R.S. will consider that investment property to be your primary residence, whether you do or not. You are, thereby, eligible for the federal homeowner exclusion when you sell such property, which enables you to shield up to $250,000 of capital gains from tax. Joint filers may exclude up to $500,000 of capital gains from tax through this break.[1,3]

Income property investors may also qualify for some federal tax deductions. If you happen to utilize an investment property (or even a vacation home) for your personal use, you may be able to take advantage of property tax deductions, the mortgage interest deduction, even the home office deduction. The size of a deduction typically corresponds to how frequently you use the property. For example, you can deduct property management fees, insurance premiums, and certain other costs only when you use the property for longer than 14 days or 10% of the total days it is rented or leased.[4]

> *"The size of a deduction typically corresponds to how frequently you use the property."*

This article is simply an overview of the tax rules on rental property. To fully explore the tax implications of a sale or purchase and the deductions and exclusions you may qualify to receive, speak to a qualified tax, real estate, or financial professional today.

The Advantages of HSAs

Health Savings Accounts offer you tax breaks & more.

Why do people open up Health Savings Accounts in conjunction with high-deductible health insurance plans? Well, here are some of the compelling reasons why younger, healthier employees decide to have HSAs.

#1: Tax-deductible contributions. These accounts are funded with pre-tax income – that is, you receive a current-year tax deduction for the amount of money you put into the plan. Your annual contribution limit to an HSA depends on your age and the type of high-deductible health plan (HDHP) you have in conjunction with the account. For 2017, limits are set at $3,400 (individual plan) and $6,750 (family plan). If you are 55 or older, those limits are nudged $1,000 higher.[1,2]

#2: Tax-free growth. In addition to the perk of being able to deduct HSA contributions from gross income, the interest on an HSA grows untaxed. (It is often possible to invest HSA assets.)[3]

#3: Tax-free withdrawals (as long as they pay for health care costs). Under federal tax law, distributions from HSAs are tax-free as long as they are used to pay qualified medical expenses.[4]

Add it up: an HSA lets you avoid taxes as you pay for health care. Additionally, these accounts have other merits.

You own your HSA. If you leave the company you work for, your HSA goes with you – your dollars aren't lost.[5]

Do HSAs have underpublicized societal benefits? Since HSAs impel people to spend their own dollars on health care, the theory goes that they spur their owners toward staying healthy and getting the best medical care for their money.

The HSA is sometimes called the "stealth IRA." If points 1-3 mentioned above aren't wonderful enough, consider this: after age 65, you may use distributions out of your HSA for any purpose; although, you will pay regular income tax on distributions that aren't used to fund medical expenses. (If you use funds from your HSA for non-medical expenses before age 65, the federal government will hit you with a 20% withdrawal penalty in addition to income tax on the withdrawn amount.)[1,2]

In fact, you can even transfer money from an IRA into an HSA – but you can only do this once, and the amount rolled over applies to your annual IRA contribution limit. (You can't roll over HSA funds into an IRA.)[1]

How about the downside? In the worst-case scenario, you get sick while you're enrolled in an HDHP and lack sufficient funds to pay medical expenses. It is worth remembering that HSA funds don't pay for some forms of health care, such as non-prescription drugs.[5]

You also can't use HSA funds to pay for health insurance coverage before age 65, in case you are wondering about such a move. After that age limit, things change: you can use HSA money to pay Medicare Part B premiums and long-term care insurance premiums. If you are already enrolled in Medicare, you can't open an HSA; Medicare is not a high-deductible health plan.[1,5]

> *"An HAS lets you avoid taxes as you pay for health care."*

Even with those caveats, younger and healthier workers see many tax perks and pluses in the HSA. If you have a dependent child covered by an HSA-qualified HDHP, you can use HSA funds to pay his or her medical bills if that child is younger than 19. (This also applies if the dependent child is a full-time student younger than 24 or is permanently and totally disabled.)[2]

Who is eligible to open up an HSA? You are eligible if you enroll in a health plan with a sufficiently high deductible. For 2017, the eligibility limits are a $1,300 annual deductible for an individual or a $2,600 annual deductible for a family.[2]

Your employer may provide a match for your HSA. If an HSA is a component of an employee benefits program at your workplace, your employer is permitted to make contributions to your account.[5]

With the future of the Affordable Care Act in question, and more and more employers offering HSAs to their employees, perhaps people will become more knowledgeable about the intriguing features of these accounts and the way they work.

The A, B, C, & D of Medicare

Breaking down the basics & what each part covers.

Whether your 65th birthday is on the horizon or decades away, you should understand the parts of Medicare – what they cover, and where they come from.

Parts A & B: Original Medicare. America's national health insurance program for seniors has two components. Part A is *hospital insurance.* It provides coverage for inpatient stays at medical facilities. It can also help cover the costs of hospice care, home health care, and nursing home care – but not for long and only under certain parameters.[1]

Seniors are frequently warned that Medicare will only pay for a maximum of 100 days of nursing home care (provided certain conditions are met). Part A is the part that does so. Under current rules, you pay $0 for days 1-20 of skilled nursing facility (SNF) care under Part A. During days 21-100, a $164.50 daily coinsurance payment may be required of y ou.[2]

If you stop receiving SNF care for 30 days, you need a new 3-day hospital stay to qualify for further nursing home care under Part A. If you can go 60 days in a row without SNF care, the clock resets: you are once again eligible for up to 100 days of SNF benefits via Part A.[2]

Part B is *medical insurance* and can help pick up some of the tab for physical therapy, physician services, expenses for durable medical equipment (scooters, wheelchairs), and other medical services such as lab tests and varieties of health screenings.[1]

Part B isn’t free. You pay monthly premiums to get it and a yearly deductible (plus 20% of costs). The premiums vary according to the Medicare recipient’s income level. The standard monthly premium amount is $134 this year, but your Part B premiums will average $109 if you pay them out of monthly Social Security benefits. The current yearly deductible is $183. (Some people automatically receive Part B coverage, but others have to sign up for it.)[3]

Part C: Medicare Advantage plans. Insurance companies offer these Medicare-approved plans. Part C plans offer seniors all the benefits of Part A and Part B and more. To enroll in a Part C plan, you need have Part A and Part B coverage in place. To keep up your Part C coverage, you must keep up your payment of Part B premiums as well as your Part C premiums.[4]

To say that not all Part C plans are alike is an understatement. Provider networks, premiums, copays, coinsurance, and out-of-pocket spending limits can all vary widely, so shopping around is wise. During Medicare’s annual Open Enrollment Period (Oct. 15 - Dec. 7), seniors can choose to switch out of Original Medicare to a Part C plan or vice versa; although, any such move is much wiser with a Medigap policy already in place.[5]

How does a Medigap plan differ from a Part C plan? Medigap plans (also called Medicare Supplement plans) emerged to address the gaps in Part A and Part B coverage. If you have Part A and Part B already in place, a Medigap policy can pick up some copayments, coinsurance, and deductibles for you. Some Medigap policies can even help you pay for medical care outside the United States. You have to pay Part B premiums in addition to Medigap plan premiums to keep a Medigap policy in effect. These plans no longer offer prescription drug coverage; in fact, they have been sold without drug coverage since 2006.[6]

Part D: prescription drug plans. While Part C plans commonly offer prescription drug coverage, insurers also sell Part D plans as a standalone product to those with Original Medicare. As per Medigap and Part C coverage, you need to keep paying Part B premiums in addition to premiums for the drug plan to keep Part D coverage going.[7]

Every Part D plan has a formulary, a list of medications covered under the plan. Most Part D plans rank approved drugs into tiers by cost. The good news is that Medicare’s website will determine the best Part D plan for you. Go to medicare.gov/find-a-plan to start your search; enter your medications, and the website will do the legwork for you.[8]

Part C & Part D plans are assigned ratings. Medicare annually rates these plans (one star being worst; five stars being best) according to member satisfaction, provider network(s), and quality of coverage. As you search for a plan at medicare.gov, you also have a chance to check out the rankings.[9]

If you would like to further discuss any of the topics written about in this newsletter, or inquire about any of our other services, please feel free to contact us

Citations:

The Critical Illness Insurance Option

1 – investopedia.com/articles/pf/08/critical-illness-insurance.asp [2017]
2 – consumerreports.org/insurance/critical-illness-insurance-might-not-be-worth-it/ [2/27/16]

Key Estate Planning Mistakes to Avoid

1 - thebalance.com/why-beneficiary-designations-override-your-will-2388824 [10/8/16]
2 - fool.com/retirement/2017/03/03/3-ways-to-keep-your-estate-out-of-probate.aspx [3/3/17]
3 - info.legalzoom.com/legal-age-inherit-21002.html [3/16/17]

Tax Rules on Rental Properties

1 - finance.zacks.com/tax-liability-selling-investment-property-5957.html [3/28/17]
2 - investopedia.com/articles/mortgages-real-estate/08/rental-property.asp [2/22/17]
3 - irs.gov/taxtopics/tc701.html [1/7/17]
4 - ajc.com/business/personal-finance/these-tax-breaks-can-help-make-homeownership-more-affordable/1rauoRXHzDmeWZVgbfmsoI [3/16/17]

The Advantage of HSAs

1 - thebalance.com/hsa-vs-ira-you-might-be-surprised-2388481 [10/12/16]
2 - shrm.org/resourcesandtools/hr-topics/benefits/pages/irs-sets-2017-hsa-contribution-limits.aspx [5/2/16]
3 - tinyurl.com/hhpdb3y [1/27/17]
4 - marketwatch.com/story/a-health-savings-account-could-power-your-retirement-2017-01-13 [1/13/17]
5 - nerdwallet.com/blog/taxes/health-savings-accounts/ [3/23/15]

The A, B, C, & D of Medicare

1 - mymedicarematters.org/coverage/parts-a-b/whats-covered/ [2/14/17]
2 - medicare.gov/coverage/skilled-nursing-facility-care.html [2/14/17]
3 - medicare.gov/your-medicare-costs/part-b-costs/part-b-costs.html [2/14/17]
4 - tinyurl.com/hbll34m [2/14/17]
5 - medicare.gov/sign-up-change-plans/when-can-i-join-a-health-or-drug-plan/when-can-i-join-a-health-or-drug-plan.html [2/14/17]
6 - medicare.gov/supplement-other-insurance/medigap/whats-medigap.html [2/14/17]
7 - ehealthinsurance.com/medicare/part-d-cost [11/5/16]
8 - medicare.gov/part-d/coverage/part-d-coverage.html [2/14/17]
9 - medicare.gov/sign-up-change-plans/when-can-i-join-a-health-or-drug-plan/five-star-enrollment/5-star-enrollment-period.html [2/14/17]

EPIC CAPITAL

Where Experienced Advice Meets Actionable Ideas INSIGHTS

Questions, comments, and inquiries are welcome: info@EpicCapital.com

Visit us on the web at www.EpicCapital.com

EPIC CAPITAL
WEALTH MANAGEMENT
6135 Park South Drive – Suite 130
Charlotte, NC 28210