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FROM
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It's officially the first day of fall and it feels like the 4th of July! Cooler days will eventually arrive; fireplaces will glow, pumpkins will smile and the harvest will be complete. In the meantime, from your air conditioned den, you can enjoy reading this month's *Directions* covering a few very important topics. We hope you find it helpful.

DIRECTIONS FOR LIFE

Commit to the Lord whatever you do, and he will establish your plans.

Proverbs 16:3

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SMITH CAPITAL

DIRECTIONS

The Investor's Guide to Financial Management

Do Millennials Need Life Insurance?

The financial challenges millennials face can be overwhelming. Many young adults have to figure out how to pay off college loans, save to buy a home or start a family, and sock away money for retirement. Given these hurdles, it's no wonder that life insurance as a financial asset gets little to no attention. But it should. There are many reasons to have life insurance at a relatively young age, but here are some common ones.

Leaving your debts for others to pay

As a young adult, you become more independent and self-sufficient. While you no longer depend on others for your financial well-being, your death might still create a financial hardship for those you leave behind.

You may have debts such as a mortgage or student loans that are jointly held with another person. Or you may be paying your parents for loans they took out (e.g., PLUS loans) to help pay for your education. Your untimely death would leave others responsible for some or all of these debts. You might consider purchasing enough life insurance to cover your financial obligations so others don't have to.

Funeral expenses can also be a burden for those you leave behind. Life insurance could ease the financial burden of paying for your uninsured medical bills (if any) and for costs associated with your funeral and burial.

It's less expensive

Premiums for life insurance are based on many factors, including age and health. Certainly, the younger and presumably healthier you are, the less your coverage will cost. This is especially true if you are at a high risk for developing a medical condition later in life.

Replacing lost income

Someone may be relying on your income for financial support. For instance, you may be providing for a family member such as a parent, grandparent, or sibling. In each of these instances, how would your income be replaced if you died? The death benefit from life insurance can help replace your income after you're gone.

Providing for your family

As your family grows, so do your financial responsibilities. There is likely a hefty mortgage to pay. And there are costs associated with young children. If you died without life insurance, how would the mortgage get paid? Could your surviving spouse or partner cover the costs of day care and housekeeping?

And there are events you should plan for now that won't happen until several years in the future. Maybe you'll begin saving for your kids' college education while trying to save as much as you can for your retirement. Over the next several decades, think about how much you could set aside for these expenses. If you are no longer around to make these contributions, life insurance can help fund these future accumulations.

Work coverage may not be enough

You may have a job with an employer that sponsors group life insurance. Hopefully, you take advantage of that program, but is it enough coverage to meet your needs now and in the future? Your insurance needs may change with time, although your employer's coverage may not. Also, most employer-sponsored life insurance programs are effective only while you remain an employee. If you change jobs or are unable to work due to illness or disability, you may lose your employer's coverage. That's why it's a good idea to consider buying your own life insurance.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

See disclaimer on final page

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All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

Taxable distributions from retirement plans and IRAs prior to age 59½ may be subject to a 10% penalty tax unless an exception applies.

Disability premiums are based on your age, gender, occupation, and the amount of potential lost income you are trying to protect, as well as the specifics of the policy and what additional benefits are added.

Five Times in Your Life When You Might Need Help with Your Finances

As you move through different stages of life, you will face new and unique financial situations. Did you just get engaged? Perhaps you are wondering how you and your partner are going to manage your money together. Do you have children? Maybe you are looking for ways to pay for their college education.

When you navigate through these various life events, you might seek professional guidance to help you make sound financial choices.

1. Getting married

Getting married is an exciting time in one's life, but it also brings about many challenges. One challenge that you and your spouse will face is how to merge your finances. Careful planning and communication are important, since the financial decisions you make now can have a lasting impact on your future.

You'll want to discuss your financial goals and determine which are most important to both of you. You should also prepare a budget to make sure you are spending less than you earn. Other issues to consider as a couple include combining financial accounts, integrating insurance coverage, and increasing retirement plan contributions.

2. Buying a home

Buying a home can be stressful, especially for first-time homebuyers. Since most people finance their home purchases, buying a house usually means getting a mortgage. As a result, you'll need to determine how large a mortgage you can afford by taking into account your gross monthly income, housing expenses, and long-term debt.

And if you haven't already done so, you'll need to save for a down payment. Traditionally, lenders have required a 20% down payment on the purchase of a home, however many lenders now offer loans with lower down payments.

3. Starting a family

Starting a family is an important — and expensive — commitment. As your family grows, you will likely need to reassess and make changes to your budget. Many of your living expenses will increase (e.g., grocery, health-care, and housing costs). In addition, you'll need to account for new expenses such as child care and building a college fund.

Having a family also means you should review your insurance coverage needs. Life insurance can help protect your family from financial uncertainty if you die, while disability insurance will help replace your income if you become injured or sick.

4. Paying for college

Paying for college is a major financial undertaking and usually involves a combination of strategies to help cover costs — savings, financial aid, income during the college years, and potentially other creative cost-cutting measures. Hopefully, you've been saving money on a regular basis to amass a healthy sum when your child is ready for college. But as college costs continue to rise each year, what you've saved may not be enough.

For this reason, many families supplement their savings at college time with federal or college financial aid. Federal aid can include student and parent loans (need-based and non-need-based), grants and work-study (both need-based), while college aid consists primarily of grants and scholarships (need-based and merit-based). In fact, college grants and scholarships can make up a significant portion of the college funding puzzle, so exploring the availability of college aid is probably the single biggest thing you can do after saving regularly to optimize your bottom line. In addition to financial aid, you might take out a private college loan or borrow against your home equity. Or you might pay college expenses using your current income or other savings or investments.

5. Saving for retirement

You know that saving for retirement is important. However, sometimes it's easy to delay saving while you're still young and retirement seems too far off in the future. Proper planning is important, and the sooner you get started, the easier it will be to meet your retirement income needs. Depending on your desired retirement lifestyle, experts suggest that you may need 80% to 100% of your pre-retirement income to maintain your standard of living. However, this is only a general guideline. To determine your specific needs, you'll need to estimate all your potential sources of retirement income and retirement expenses, taking taxes and inflation into account.

Once you've estimated how much money you'll need for retirement, your next goal is to save that amount. Employer-sponsored retirement plans like 401(k)s and 403(b)s are powerful savings tools because you can make pre-tax contributions (reducing your current taxable income), and any investment earnings grow tax deferred until withdrawn, when they are taxed as ordinary income. You may be able to enhance your savings even more if your employer matches contributions. IRAs also offer tax-deferred growth of earnings.

Balancing 401(k) and HSA Contributions

For more information on qualified medical expenses, review IRS Publication 502. For help with your specific situation, consult a tax professional.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

[1] Survey of Adults with Employer-Sponsored Insurance, Kaiser Family Foundation/LA Times, May 2, 2019

[2] 2019 HSA Survey, Plan Sponsor Council of America, June 4, 2019

If you have the opportunity to contribute to both a 401(k) and a health savings account (HSA), you may wonder how best to take advantage of them. Determining how much to contribute to each type of plan will require some careful thought and strategic planning.

Understand the tax benefits

A traditional, non-Roth 401(k) allows you to save for retirement on a pre-tax basis, which means the money is deducted from your paycheck before taxes are assessed. The account then grows on a tax-deferred basis; you don't pay taxes on any contributions or earnings until you withdraw the money. Withdrawals are subject to ordinary income tax and a possible 10% penalty tax if made before you reach age 59½, unless an exception applies.

You can open and contribute to an HSA only if you are enrolled in a qualifying high-deductible health plan (HDHP), are not covered by someone else's plan, and cannot be claimed as a dependent by someone else. Although HDHP premiums are generally lower than other types of health insurance, the out-of-pocket costs could be much higher (until you reach the deductible). That's where HSAs come in. Similar to 401(k)s, they allow you to set aside money on a pre-tax or tax-deductible basis, and the money grows tax deferred.

However, HSAs offer an extra tax advantage: Funds used to pay qualified medical expenses can be withdrawn from the account *tax-free.* And you don't have to wait until a certain age to do so. That may be one reason why 68% of individuals in one survey viewed HSAs as a way to pay current medical bills rather than save for the future.[1] However, a closer look at HSAs reveals why they can add a new dimension to your retirement strategy.

HSAs: A deeper dive

Following are some of the reasons an HSA could be a good long-term, asset-building tool.

- With an HSA, there is no "use it or lose it" requirement, as there is with a flexible spending account (FSA); you can carry an HSA balance from one year to the next, allowing it to potentially grow over time.
- HSAs are portable. If you leave your employer for any reason, you can roll the money into another HSA.
- You typically have the opportunity to invest your HSA money in a variety of asset classes, similar to a 401(k) plan. (According to the Plan Sponsor Council of America, most HSAs require you to have at least $1,000 in the account before you can invest beyond cash alternatives.[2])
- HSAs don't impose required minimum distributions at age 70½, unlike 401(k)s.
- You can use your HSA money to pay for certain health insurance costs in retirement, including Medicare premiums and copays, as well as long-term care insurance premiums (subject to certain limits).
- Prior to age 65, withdrawals used for nonqualified expenses are subject to income tax and a 20% penalty tax; however, after age 65, money used for nonqualified expenses will not be subject to the penalty [i.e., HSA dollars used for nonqualified expenses after age 65 receive the same tax treatment as traditional 401(k) withdrawals].

The bottom line is that if you don't need all of your HSA money to cover immediate health-care costs, it may provide an ideal opportunity to build a separate nest egg for your retirement health-care expenses. (It might be wise to keep any money needed to cover immediate or short-term medical expenses in relatively conservative investments.)

Additional points to consider

If you have the option to save in both a 401(k) and an HSA, ideally you would set aside the maximum amount in each type of account: in 2019, the limits are $19,000 (plus an additional $6,000 if you're 50 or older) in your 401(k) plan; $3,500 for individual coverage (or $7,000 for families, plus an additional $1,000 if you're 55 or older) in your HSA. Realistically, however, those amounts may be unattainable. So here are some important points to consider.

1) Estimate how much you spend out of pocket on your family's health care annually and set aside at least that much in your HSA.

2) If either your 401(k) or HSA — or both — offers an employer match, try to contribute at least enough to take full advantage of it. Not doing so is turning down free money.

3) Understand all HSA rules, both now and down the road. For example, you'll need to save receipts for all your medical expenses. And once you're enrolled in Medicare, you can no longer contribute to an HSA. Nor can you pay Medigap premiums with HSA dollars.

4) Compare investment options in both types of accounts. Examine the objectives, risk/return potential, and fees and expenses of all options before determining amounts to invest.

5) If your 401(k) offers a Roth account, you may want to factor its pros and cons into the equation as well.

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What health services aren't covered by Medicare?

Original Medicare — Part A hospital insurance and Part B medical insurance — offers broad coverage, but many services are not covered.

Some may be fully or partially covered by a Part C Medicare Advantage Plan, which replaces Original Medicare, or a Medigap policy, which supplements Original Medicare. Both are offered by Medicare-approved private insurers. (You cannot have both a Medicare Advantage Plan and a Medigap policy.)

Whether you are looking forward to Medicare in the future or are already enrolled, you should consider these potential expenses.

Deductibles, copays, and coinsurance. Costs for covered services can add up, and — unlike most private insurance — there is no annual out-of-pocket maximum. Medicare Advantage and Medigap plans may pay all or a percentage of these costs and may include an out-of-pocket maximum.

Prescription drugs. For coverage, you need to enroll in a Part D prescription drug plan or a Medicare Advantage plan that includes drug coverage.

Dental and vision care. Original Medicare does not cover routine dental or vision care. Some Medicare Advantage and Medigap plans may offer coverage for either or both of these needs. You might also consider private dental and/or vision insurance.

Hearing care and hearing aids. Some Medicare Advantage plans may cover hearing aids and exams.

Medical care outside the United States. Original Medicare does not offer coverage outside the United States. Some Medicare Advantage and Medigap plans offer coverage for emergency care abroad. You can also purchase a private travel insurance policy.

Long-term care. Medicare does not cover "custodial care" in a nursing home or home health care. You may be able to purchase long-term care (LTC) insurance from private insurers.

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the LTC insurance policy. It should be noted that LTC insurance carriers have the discretion to raise their rates and remove their products from the marketplace.