BankFinancial Trust & Investment Services

BankFinancial Newsletter
Planning Your Financial Future

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Tips for Managing Your Holiday Spending

Like almost everything else these days, the holidays have become a barrage of options and choices, with nearly limitless opportunities to overspend. Here are some tips to help you make sure your family's spending remains in check this holiday season.

Develop a spending strategy
First and foremost, develop a budget. Involving family members will help you establish and maintain realistic expectations at the outset. Remember to include not just gifts, but also holiday meals and parties, travel, greeting cards and stamps, gift wrap, decorations, and any other category you deem necessary. This is also a good time to commit to using cash or charging no more than you can pay off in one month.

Next, devise a method of tracking all your purchases, receipts, gift recipients, and the locations of hidden gifts that you might otherwise forget about. This will make life easier as the chaos ramps up.

Review your credit cards to see if you have any perks. Could you use earned points for travel, or cash-back and gift card rewards to help defray costs?

Track down old gift cards and put them to use now. If you think you'll never use them, trade them in for cash on a discounted gift card website. There, you can sell your old cards and even buy new e-gift cards at a discounted rate, which you can then give as gifts or use for your own purchases.

Put technology to work for you. You can find apps that offer cash back if you shop online; alert you to online coupons available at nearby stores; round up your purchases to the nearest dollar and put the difference into a savings account; and track your online purchases, scan other stores for better prices, and then automatically email the original stores on your behalf to take advantage of the price-match guarantees. There are myriad options available, so be sure to check reviews and privacy/security measures before downloading.

Think creatively

Gifts
Take time to carefully scan all promotional materials before you head out the door or open a browser, because great deals are often available for limited periods of time. For example, some stores have offered generous gift cards in exchange for buying certain products on Black Friday.

Consider giving experiences rather than gifts, which happiness experts say could lead to more sustained levels of well-being. In fact, you may find that you'll spend less overall by giving one or two memorable experiences instead of the usual pile of items.

Create meaningful yet inexpensive gifts, such as photo books, calendars, and family recipe books, using online apps and services. This idea is especially appropriate for gifts from children to older family members.

For larger or extended families, make a game out of gift giving. Consider a "Yankee swap," or implement a gift exchange, where everyone is randomly assigned a person for whom they buy one special gift. Or consider having the entire family chip in a certain amount per person and donating to a favorite charity or sponsoring another family in need.

Food
Nonperishable holiday-related goods typically go on sale in late fall, so plan ahead and stock up. Also keep an eye out for specials; for example, some grocery stores offer a free turkey around Thanksgiving when you spend a certain amount on groceries.

Party planning, decorations, gift wrap. Consider buying the bulk of these supplies at deep-discount stores and splurging on a few special highlight items, such as napkins with an elaborate design, centerpieces of fresh flowers, or fancy bows. If you live in an area where evergreens, autumn berries, and pine cones are plentiful, take advantage of this potentially sophisticated, yet completely free, decor. Or create even more memories by hosting an ornament-making party. Use old costume jewelry or other items to make ornaments and decorations with sentimental value.

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Travel
During one of the busiest travel times of the year, deals can be hard to find. Here are some tips:

- Be flexible. If you can postpone your celebration until after the holidays, you may be able to save substantially on travel costs. (You can also shop the post-holiday sales for gifts!)
- Avoid airline baggage fees by using carry-on luggage.
- Use fare-tracking apps to find the best deals.
- Cost-compare alternative modes of travel, such as train and ridesharing.

It's never too early to start saving
Finally, get a jump on next year's festivities by stocking up on supplies during post-holiday sales, opening a savings account with a goal of saving at least as much as you spend this year, and shopping as early as possible to spread spending throughout the year.

Balancing 401(k) and HSA Contributions

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. 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.)
- 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.

Do independent living communities differ from CCRCs?

Independent living communities, also known as rental retirement communities, offer housing options for active seniors and retirees who require little or no assistance with daily activities. Most independent living residents desire an environment where they don't have to be concerned about safety, maintenance, and homeownership responsibilities.

One of the major offshoots of the burgeoning number of baby boomers retiring every day is the growing retirement living industry. More and more communities dedicated to senior living are opening each year. Two popular options are continuing care retirement communities (CCRCs) and independent living communities. While there are similarities between the two, there are important differences as well.

Both CCRCs and independent living communities may offer amenities such as a clubhouse, lounge, dining rooms, fitness centers, swimming pools, housekeeping services, and transportation. CCRCs usually offer a higher level of amenities and services than independent living communities.

The main difference between CCRCs and independent living communities is the extent of health-related, or continuing care, services offered by CCRCs, which include assisted living services, memory care, and long-term care. Independent living communities typically do not offer continuing care services. Instead, the resident may arrange for such services through an outside agency. Generally, independent living communities do not offer assisted living services or long-term care.

Another difference between CCRCs and independent living communities relates to the costs. Most CCRCs require a substantial entry fee plus a monthly fee. Typically, independent living communities charge a monthly fee, similar to rent. Independent living fees are usually not covered by any type of insurance, including Medicare and long-term care insurance. However, health-related services and care that a resident receives (which are not offered by the independent resident community) may be covered by insurance or Medicare.

Determining which type of community is the best choice depends on a number of factors including the services needed or desired and the costs associated with each type of residential community.

See disclaimer on final page

Have you been scammed?

Here are some tips directly from the Federal Trade Commission (FTC) to help you avoid becoming a victim.

Do not trust caller ID. Scam calls may show up on caller ID as the Social Security Administration and look like the agency's real number.

Don't give the caller your Social Security number or other personal information. If you already did, visit IdentityTheft.gov/SSA to find out what steps you can take to protect your credit and your identity.

Check with the real Social Security Administration. The SSA will not contact you out of the blue. But you can call the agency directly at (800) 772-1213 to find out if the SSA is really trying to reach you and why. (You can trust this number if you call it yourself.)

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How much will health care cost?

Retirement health-care costs will vary depending on your health and longevity, but it may help to have a guideline. These are the estimated savings required for an individual or couple who turned 65 in 2019 to have a 90% chance of meeting expenses for Medicare Part B health insurance, Part D prescription drug coverage, Medigap Plan F, and out-of-pocket drug costs, assuming median prescription drug expenses.* These estimates do not include services not covered by Medicare or Medigap.

*Medigap Plan F is used for these estimates because it is the most comprehensive coverage available and simplifies the calculation. However, this plan may not be available for new beneficiaries after January 1, 2020. Current enrollees may keep Plan F, and most other plans will remain available for new enrollees.

Source: Employee Benefit Research Institute, 2019

How can you avoid falling for the Social Security imposter scam?

The scam generally starts like this. You answer a call or retrieve a voicemail message that tells you to "press 1" to speak to a government "support representative" for help in reactivating your Social Security number. The number on your caller ID looks real, so you respond. The "agent" you reach tells you that your Social Security number has been suspended due to suspicious activity or because it has been involved in a crime.

You're worried. You know how important it is to keep your Social Security number safe. So when the caller asks you to confirm this number to reactivate it, or says your bank account is about to be seized but the Social Security Administration (SSA) can safeguard it if you put your money on gift cards and provide the codes, you don't know what to do. If you balk, you may be reminded that if you don't act quickly, your accounts will be seized or frozen.

Although none of this is true (the SSA will never threaten to seize benefits or suspend numbers), many people have fallen for the Social Security imposter scam, and the numbers are rising. According to the Federal Trade Commission (FTC), more than 76,000 reports of the Social Security imposter scam were filed between April 2018 and March 2019. Reported losses during this period were $19 million, and almost half of the reports were filed in February and March 2019.[1]

1 FTC Consumer Protection Data Spotlight, April 2019