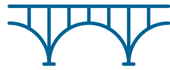

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*Finance*FOCUS

What are the New HRA Options that will be Available to Employers in 2020?

Health reimbursement arrangements (HRAs) are employer-sponsored accounts that help employees pay for health-care expenses on a tax-advantaged basis. An employer establishes HRA accounts on behalf of employees and allocates a certain amount of money to them each year. Funds accumulate tax-free and are used to reimburse employees for qualified medical expenses such as health insurance premiums, routine medical bills, deductibles, and prescription drugs. Beginning in January 2020, employers can offer two new types of HRAs — an Individual Coverage HRA and an Excepted Benefit HRA.

INDIVIDUAL COVERAGE HRA (ICHRA)
Employees can use funds allocated by their employer to buy their own health insurance on the individual market, subject to certain conditions. ICHRAs can also satisfy the Affordable Care Act (ACA) employer mandate as long as they provide sufficient funding to be considered "affordable." (Per the ACA, employers with 50 or more full-time employees are required to offer affordable health coverage that meets certain minimum standards.)

ICHRAs may be especially appealing to small employers that want to offer health coverage but have found traditional group plans to be cost-prohibitive. The U.S. Departments of Health and Human Services, Labor, and the Treasury, which issued the new rules in June 2019, estimate that approximately 800,000 small businesses will offer ICHRAs to their employees.

EXCEPTED BENEFIT HRA (EBHRA)
This type of HRA must be offered in conjunction with a traditional health plan. It allows employers to set aside a limited amount of funds ($1,800 per employee in 2020) to help pay for qualified medical expenses, including premiums for vision and dental insurance, COBRA coverage, and short-term, limited-duration insurance (not offered in all states). It is available even if the employee declines to participate in the primary plan.

Employees cannot be offered both an ICHRA and an EBHRA. Certain rules (including nondiscrimination rules), requirements, and conditions apply.

For more information, review the new rules carefully and visit the FAQ page on the IRS website.

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Samalin Investment Counsel is a fee-only, nationally recognized SEC registered investment advisory firm. With offices in Chappaqua NY and NYC, we specialize in wealth management, pre and post divorce financial planning, retirement planning, and other related financial services.

How Much Will Health Care Cost?

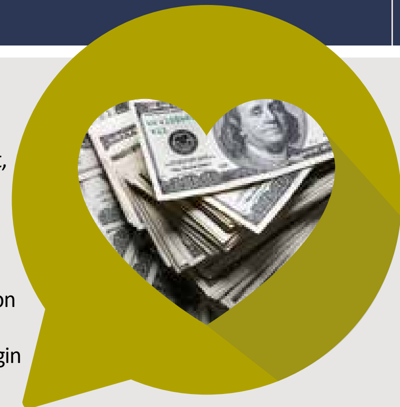
Retirement health-care costs will vary depending on your health and longevity, but it may help to have a guideline. These are the estimated savings required for an individual or couple who turned 65 in 2019 to have a 90% chance of meeting expenses for Medicare Part B health insurance, Part D prescription 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.*

MAN	WOMAN	COUPLE
$144,000	$163,000	$301,000

*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

Qualified Charitable Distributions: *Using Your IRA to Give from the Heart*



The Tax Cuts and Jobs Act roughly doubled the standard deduction ($12,200 for single filers and $24,400 for married taxpayers filing jointly in 2019) and indexed it for inflation through 2025. As a result, far fewer taxpayers will itemize deductions on their tax returns, and some people may be disappointed that they no longer benefit from writing off their donations.

If you are 70½ or older, you can use a qualified charitable distribution (QCD) to donate from your IRA and get a tax break, whether you itemize or not. Not coincidentally, this is the same age you must begin taking annual required minimum distributions (RMDs), which are normally taxed as ordinary income, or face a 50% penalty on the amount that should have been withdrawn.

QCDs satisfy all or part of any RMDs that you would otherwise have to take from your IRA. Better yet, QCDs are excluded from your income, so they help lower your adjusted gross income (AGI) as well.

How QCDs work

The IRA custodian must issue a check made out to a qualified public charity (not a private foundation, donor-advised fund, or supporting organization). In some cases, the IRA custodian may provide a checkbook from which you can write checks to chosen charities. Be aware that any check you write will count as a QCD for the year in which it is cashed by the charity, whereas a check from the custodian counts for the year in which it is issued.

You can take an RMD any time during the year you turn 70½, but you must wait until after you are 70½ to make a QCD. The QCD exclusion is limited to $100,000 per year. If you're married, your spouse can also contribute up to $100,000 from his or her IRA. You cannot deduct a QCD as a charitable contribution on your federal income tax return — that would be double-dipping.

A QCD must be an otherwise taxable distribution from your IRA. If you've made nondeductible contributions, then each distribution normally carries with it a pro-rata amount of taxable and nontaxable dollars. With QCDs, the pro-rata rule is ignored, and taxable dollars are treated as distributed first.

Tax perks for givers

If you no longer itemize, you could reduce your tax bill by donating with QCDs from your IRA instead of writing checks from your standard checking account. And if you still itemize, QCDs might prove more valuable than tax deductions. That's because they can help address tax issues that might be triggered by income from RMDs.

For example, an itemized deduction reduces your taxable income by the amount of the charitable gift, but it does not reduce your adjusted gross income. This is a key distinction because the 3.8% tax on net investment income, Medicare premium costs, taxes on Social Security benefits, and some tax credits are based on AGI.

Also, charitable giving can typically be deducted only if it is less than 60% of your adjusted gross income. But with QCDs, you may be able to give more than 60% of your AGI and exclude the entire amount (up to the$100,000 cap) from your taxable income.

Time for a rollover?

Qualified charitable distributions are available from traditional IRAs, Roth IRAs (with taxable amounts), and inactive SIMPLE or SEP IRAs, but they are not allowed from employer retirement plans such as 401(k)s and 403(b)s. Thus, you might consider rolling funds from an employer plan to an IRA if you want to take advantage of a giving strategy that involves QCDs.

Estate Planning: Consider the Tax Basis of Gifted or Inherited Property

Tax basis can be important when deciding whether to make gifts now or transfer property at your death. This is because the tax basis of the person receiving the property depends on whether the transfer is by gift or at death. This, in turn, affects the amount of taxable gain subject to income tax when the person sells the property.

WHAT IS TAX BASIS?

The tax basis of an asset is used when determining whether you have recognized a capital gain or loss on the sale of property for income tax purposes. (Gain or loss on the sale of property equals the difference between your adjusted tax basis and the amount you realize upon the sale of the property.) When you purchase property, your basis is generally equal to the purchase price. However, there may be some adjustments made to basis.

WHAT IS THE TAX BASIS FOR PROPERTY YOU RECEIVE AS A GIFT?

When you receive a gift, you generally take the donor's basis in the property. (This is often referred to as a "carryover" or "transferred" basis.) The carryover basis is increased — but not above fair market value (FMV) — by any gift tax paid that is attributable to appreciation in value of the gift. (Appreciation is equal to the excess of FMV over the donor's basis in the gift immediately before the gift.) However, for the purpose of determining loss on a subsequent sale, the carry-over basis cannot exceed the FMV of the property at the time of the gift.

Example: *Say your father gives you stock worth $1,000 and the gift incurs no gift tax. He purchased the stock for $500. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is $500. If you sold the stock for $1,000, you would have gain of $500 ($1,000 received minus $500 basis).*

Now assume that the stock is only worth $200 at the time of the gift and you sell it for $200. Your basis in the stock, for the purpose of determining gain on the sale of the stock, is still $500, but your basis for determining loss is $200. You do not pay tax on the sale of the stock. You do not recognize a loss either. In this case, it would have been better if your father had sold the stock (and recognized the loss of $300 — his basis of $500 minus $200 received) and then transferred the sales proceeds to you as a gift.

WHAT IS THE TAX BASIS FOR PROPERTY YOU INHERIT?

When you inherit property, you generally receive an initial basis in property equal to the property's FMV. The FMV is established on the date of death or on an alternate valuation date six months after death. This is often referred to as a "stepped-up" basis, since basis is typically stepped up to FMV. However, basis can also be "stepped down" to FMV.

Example: *Say your mother leaves you stock worth $1,000 at her death. She purchased the stock for $500. Your basis in the stock is a stepped-up basis of $1,000. If you sold the stock for $1,000, you would have no gain ($1,000 received minus $1,000 basis).*

Now assume that the stock is only worth $200 at the time of your mother's death. Your basis in the stock is a stepped-down basis of $200. If you sold the stock for more than $200, you would have gain.

MAKE GIFT NOW OR TRANSFER AT DEATH?

As the following example shows, tax basis can be important when deciding whether to make gifts now or transfer property at your death.

Example: *You purchased land for $25,000. It is now worth $250,000. You give the property to your child (assume the gift incurs no gift tax), who then has a tax basis of $25,000. If your child sells the land for $250,000, your child would have taxable gain of $225,000 ($250,000 sales proceeds minus $25,000 basis).*

If instead you kept the land and transferred it to your child at your death when the land is worth$250,000, your child would have a tax basis of$250,000. If your child sells the land for $250,000, your child would have no taxable gain ($250,000 sales proceeds minus $250,000 basis).

In addition to tax basis, you might consider the following questions:

- Will making gifts reduce your combined gift and estate taxes? For example, future appreciation on gifted property is removed from your gross estate for federal estate tax purposes.
- Does the recipient need a gift now or can it wait? How long would a recipient have to wait until your death?
- What are the marginal income tax rates of you and the recipient?
- Do you have other property or cash that you could give?
- Can you afford to make a gift now?

An asset's tax basis can be important when deciding whether to make gifts now or transfer property at your death. When you make a gift of property during your lifetime, the recipient generally receives your basis in the property. When you transfer property at your death, the recipient generally receives a basis equal to the fair market value of the property as of the date of your death. The difference can substantially affect the amount of taxable gain when the recipient sells the property.

Key Retirement and Tax Numbers 2020

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2020.

EMPLOYER RETIREMENT PLANS

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2020 (up from $19,000 in 2019); employees age 50 and older can defer up to an additional $6,500 in 2020 (up from $6,000 in 2019).
- Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2020 (up from $13,000 in 2019), and employees age 50 and older can defer up to an additional $3,000 in 2020 (the same as in 2019).

IRAS

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2020 (the same as in 2019), with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA phases out for the following modified adjusted gross income (MAGI) ranges:

	2019	2020
Single/head of household (HOH)	$64,000-$74,000	$65,000-$75,000
Married filing jointly (MFJ)	$103,000-$123,000	$104,000-$124,000
Married filing separately (MFS)	$0-$10,000	$0-$10,000

Note: *The 2020 phaseout range is $196,000 -$206,000 (up from $193,000 - $203,000 in 2019) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified adjusted gross income phaseout ranges for individuals to make contributions to a Roth IRA are:

	2019	2020
Single/head of household (HOH)	$122,000-$137,000	$124,000-$139,000
Married filing jointly (MFJ)	$193,000-$203,000	$196,000-$206,000
Married filing separately (MFS)	$0-$10,000	$0-$10,000

ESTATE AND GIFT TAX

- The annual gift tax exclusion for 2020 is $15,000, the same as in 2019.
- The gift and estate tax basic exclusion amount for 2020 is $11,580,000, up from $11,400,000 in 2019.

KIDDIE TAX

Under the kiddie tax rules, unearned income above $2,200 in 2020 (the same as in 2019) is taxed using the trust and estate income tax brackets. The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

STANDARD DEDUCTION

	2019	2020
Single	$12,200	$12,400
HOH	$18,350	$18,650
MFJ	$24,400	$24,800
MFS	$12,200	$12,400

Note: *The additional standard deduction amount for the blind or aged (age 65 or older) in 2020 is $1,650 (the same as in 2019) for single/HOH or $1,300 (the same as in 2019) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

ALTERNATIVE MINIMUM TAX (AMT)

	2019	2020
Maximum AMT exemption amount		
Single/HOH	$71,700	$72,900
MFJ	$111,700	$113,400
MFS	$55,850	$56,700
Exemption phaseout threshold		
Single/HOH	$510,300	$518,400
MFJ	$1,020,600	$1,036,800
MFS	$510,300	$518,400
26% rate on AMTI* up to this amount 28% rate on AMTI above is this amount		
MFS	$97,400	$98,950
MFJ	$194,800	$197,900

**Alternate minimum taxable income*

How to Land a Better Financial Aid Package

Your child has applied to several colleges, and the financial aid awards are starting to arrive. But when you take a look, they're less than what you expected. Or maybe your returning college student got less aid than he or she did last year. Is there anything you can do to get more financial aid?

FIRST, COMPARE APPLES WITH APPLES

When comparing financial aid awards from different colleges, make sure you're comparing apples to apples. Specifically, look at what your actual out-of-pocket costs will be at each college, not just the total amount of aid offered. To determine your out-of-pocket cost, subtract the total amount of grants/scholarships and work-study offered from the total cost of each school. For example, consider the following three aid awards:

	College A	College B	College C
Total Cost	$30,000	$50,000	$70,000
Aid Package	$13,000	$26,000	$56,000
Grants	$10,000	$20,000	$50,000
Work-Study	$0	$2,000	$1,000
Loans	$3,000	$4,000	$5,000
Out-of-Pocket	$20,000	$28,000	$19,000

In this example, even though College C is the most expensive school and has the highest loan amount of all three schools, it has the lowest out-of-pocket cost. And even though College B's total aid package is double College A's award, College B will end up costing you more than College A. In fact, College B will cost$9,000 more out-of-pocket than College C, even though College C's sticker price is $20,000 more than College B.

LOOK CLOSELY AT GRANT DETAILS

College grants often make up the largest portion of a student's financial aid award, especially at private colleges. If your child's aid package contains a college grant, you'll want to understand the details. First, confirm whether it's being offered for all four years or just one year. Second, is it based on need, merit, or both? If the grant is based on financial need, keep in mind that the amount may fluctuate with changes to your financial picture. Third, if the grant carries through all four years, find out if there are any requirements your child will need to satisfy to maintain eligibility, such as a minimum GPA, community service hours, or participation in a certain activity. Also, it couldn't hurt to ask if the grant will increase each year to keep up with the likely annual increase in tuition and fees.

GETTING A MORE FAVORABLE DEAL

Let's assume you've compared aid awards and you're ready to zero in on one or two colleges that your child has his or her heart set on. Is it possible to request a more favorable aid package? The answer is yes. The financial aid administrator (FAA) at each college has the authority to exercise "professional judgment" to reduce the loan portion of your child's aid award and increase the grant, scholarship, and/or work-study component. Your chances of prevailing are best in two situations:

1. You have a special circumstance that affects your ability to pay (e.g., a recent job loss, prolonged unemployment, unusually high medical expenses, or some other situation that puts above-average constraints on your income and savings).

2. Your child has been accepted at two competing colleges, and one has offered a more generous aid package than the other. In this case, you might try to play one college against the other. Although many colleges don't mind losing an applicant to a more (or less) selective college, they generally don't like to lose an applicant to a direct competitor.

If neither of these situations applies, you can still contact the FAA to plead your case, but the outcome may be more uncertain.

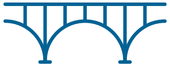
The process typically involves a polite business letter or email to the FAA, with a follow-up telephone call or meeting a week or so later. Avoid calling first and complaining. Instead, explain in positive terms how much your child wants to attend that particular school, highlight your child's accomplishments, and politely request if any additional grant, scholarship, or work-study aid might be available. Make sure to put your child's name at the top of all correspondence, and keep a copy for your records. You want to be persistent, but not to the point of being a pest.

Whether or not you're successful will depend primarily on the individual circumstances of the college. How much discretionary grant aid does the college have available? Is it meeting its enrollment goals? Does your child possess the qualities or skills that would make the school more diverse and well-rounded in a way that fulfills the college's needs? No one can predict the answers to these questions, which is why requesting a more favorable aid package can't hurt, as long as it's done the right way.

ATTENTION PARENTS

SCHOLARSHIPS FOR CURRENT STUDENTS

The scholarship search doesn't have to end once your child enrolls in college . Many colleges offer scholarships to current students. Search the college's website or call the financial aid office to inquire. Scholarships for current students might be offered by the college or outside donors, and they might be open to anyone or targeted by major, grade point average (GPA), ethnicity, o r participation in a certain club or activity. Make it a point to search each year!



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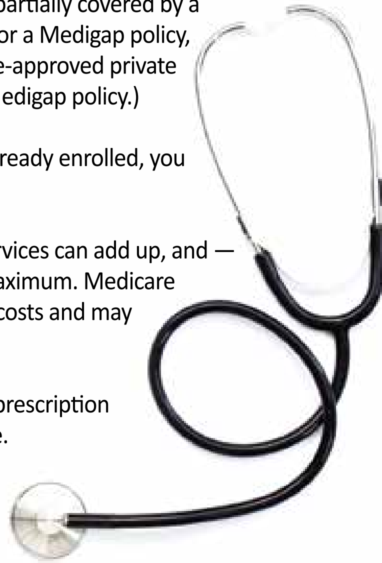
What health services aren't covered by Medicare?

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.

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