A newsletter from Ascential Wealth Advisors

Volume 3 • 2017

In this issue

MEDICAL EXPENSES
How an HSA impacts your retirement security

COLLEGE PLANNING
The 1, 2, 3 of a 529

WHO'S THAT?
Meet Mike Owens

Funding your future health care

By Brad Christiansen

Brad Christiansen
Financial Advisor

Medical expenses are an inevitable and potentially expensive part of retirement. If you have access to a Health Savings Account (HSA) pre-retirement, this can be an invaluable tool to help save for retirement. To have access to a HSA, you must be enrolled in a "high deductible health plan" – for 2017 a plan that has a minimum deductible of $1,300 individual/$2,600 family. If your plan qualifies, you can contribute up to $3,400 individual or $6,750 family of income pre-tax to a HSA in 2017, and those over age 55 can contribute an additional $1,000. You have until the April 17, 2017 tax filing deadline to max out your 2016 contribution (providing you were enrolled in a qualifying plan in 2016), which can be done via a lump sum contribution if it can't be done through payroll.

Similar to a 401k contribution, your money can go into the HSA pre-tax and grow tax deferred, but the double advantage of a HSA is that any distributions that are used for qualified medical expenses are tax free as well. A retirement account is either tax-deductible up front or tax-free for qualified distributions, but never both. Qualified medical expenses can be anything that is eligible for a medical expense deduction, as well as Medicare premiums.

The funds are also accessible for distribution for any purpose without penalty once the owner reaches age 65, however income taxes will be due on the non-qualified distribution amount, similar to taking an IRA withdrawal.

With a 65-year-old couple projected to spend $245,000 on healthcare expenses in retirement (Fidelity), having a source of funds earmarked for medical expenses in a HSA certainly makes sense. How would this work? If you are able to participate in a HSA, max out contributions, but pay for out-of-pocket medical expenses in the current year from income if possible. The funds in the HSA can grow as there is not a "use it or lose it" provision so funds can be carried forward indefinitely. It may even make sense to scale back other retirement contributions in favor of funding a HSA particularly if you already have savings in traditional retirement accounts or other retirement income sources. We commonly advocate having different types of funds available in retirement (ROTH, Traditional IRA, non-retirement investments) so that you can manage taxes. The HSA is another tool to help deal with taxes and those unavoidable medical expenses all retirees face.

How does a 529 impact financial aid?

By Kristin Rognerud

Kristin Rognerud
Financial Advisor

Paying for a college education today is no easy task but the benefits of a college degree are undeniable. Inflation for post-secondary education has far outpaced general inflation over the last few decades and a college education has become quite costly. Consider the averages for annual college cost in 2016 (source CollegeAmerica):

- In-state public - $17,014
- Private - $40,930
- Ivy League - $63,438

Now multiply that by 4, or more commonly 6 considering 60% of bachelor's degrees today are taking 6 years to complete. That's a hefty price tag, and can be overwhelming to think about. If you are fortunate enough to have money saved in a 529 college savings account, maybe that figure is not so scary. However chances are the 529 may not cover it all, so then what? How does that 529 impact your student's ability to get financial aid? This really depends on who owns it.

The most common financial aid formula, used by the Free Application for Federal Student Aid (FAFSA), considers two things – assets and income, which are treated differently depending on who they belong to – student, parents, or grandparents. These numbers figure into a formula to determine the "Expected Family Contribution" (EFC) or how much money the family is considered to have available to pay for college expenses. Financial aid is then awarded based on the cost of college less the expected family contribution.

Here is how assets and income are counted toward the EFC based on who owns them:

ASSETS:

Student - 20% of assets (UGMA/UTMA, savings bonds, minor trusts)

Parents - up to 5.64% of non-retirement assets (investments, bank accounts, CDs, Coverdell Education Savings, or 529s)

Grandparents - Not counted

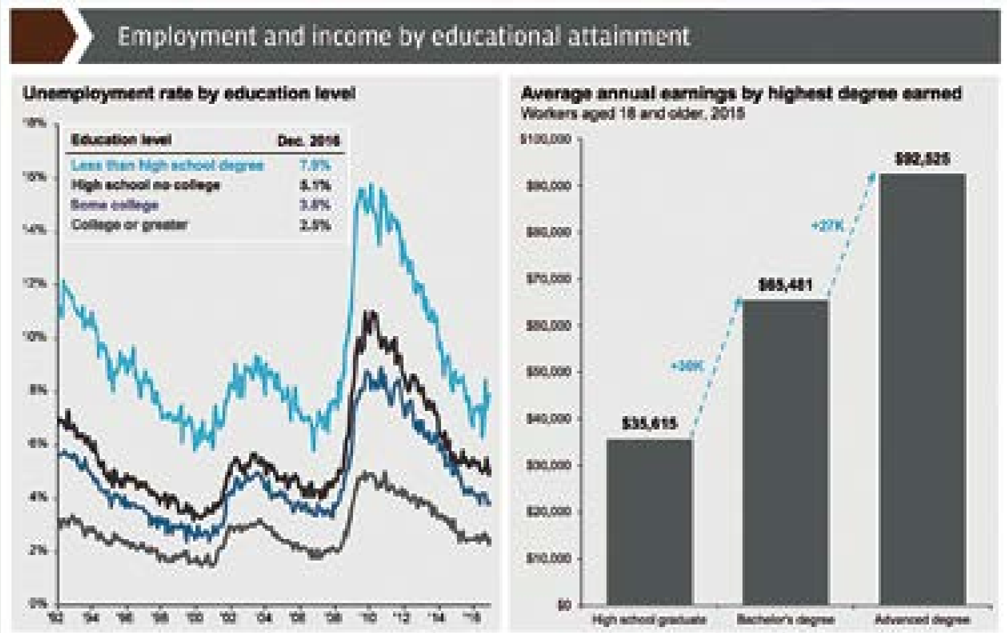
INCOME:

Student - 50% of adjusted gross income over $3,000

Parents - 22%-47% of available income

Grandparents - income not considered, BUT any type of financial support provided, including

Continued on back page



Source: JP Morgan Guide to Markets, 1Q 2017.

DID YOU KNOW?

- 32% of American adults over the age of 25 have graduated from college with at least a bachelor's degree. (Census Bureau)

- College costs have risen over 5% annually during the past 10 years — more than double the general inflation. (Franklin Templeton)

Meet Mike

Mike Owens
Financial Advisor

We are excited to have financial advisor, Mike Owens on our team. Mike joined Ascential Wealth at the end of 2016.

What is your professional background?

After graduating from University of Minnesota, Duluth with a degree in Finance and Economics, I spent several years in the role as a Financial Analyst with the Musicland Group and Pillsbury. I realized I wanted a career where I could be more entrepreneurial and be more directly involved in helping people improve their lives. I joined the financial services industry and have spent 16 years as a Financial Advisor with a major wire house and then as a Branch Manager, Financial Advisor and Partner with Lake Superior Financial Services an independent Raymond James office in Duluth, MN.

What led you to Ascential Wealth?

I was drawn to the team collaboration and individual personalities of the group. My passion is helping families and business owners navigate complex financial issues. I believe the culture of the firm, along with the experience and knowledge of the team, provide me with the ideal environment to be successful. I am truly excited to be part of the Ascential Wealth team and I look forward to getting to know the clients they serve.

What are your personal interests?

My wife Jennifer and I are both from Brainerd, MN, but we now call Cloquet, MN home. Jen is an elementary school teacher in the Cloquet. We have two very active daughters, Hailey and Kate. In our free time our family enjoys spending time on the water in the Brainerd Lakes area and outdoors in and around Duluth. When I am not watching my daughters participate in horse jumping, downhill racing or high school soccer and basketball games, I enjoy various outdoor activities including golfing, hunting and fishing.

"FINANCIAL FREEDOM IS AVAILABLE TO THOSE WHO LEARN ABOUT IT AND WORK FOR IT."

ROBERT KIYOSAKI

distributions from grandparent-owned 529s is reportable as student income on the following year's financial aid application

Essentially, a 529 owned by a parent has only 5.64% of the value counted, and distributions are not added to income when applying for student aid in subsequent years. Grandparent owned 529s are not counted at all for assets purposes, however funds disbursed are considered income to the student for subsequent financial aid applications, and counted at a rate of 50% toward the expected family contribution.

In addition to parental assets being counted at a much lower rate than student owned assets, parents are also eligible to shelter a portion of their assets from consideration. The amount excluded from the calculation is determined by the age of the oldest parent, and the closer they are to retirement, the higher the value of assets that can be excluded. The EFC formula, which is published by the US Department of Education, changes each year and can be found by going to ifap.ed.gov.

At some point, assets titling does not matter if income surpasses the level that precludes the student from being eligible for financial aid. There is no magic income number to report here, but at some point, based on all of the factors evaluated (assets, income, household size, etc.) the Expected Family Contribution meets or exceeds the cost of college, and the student is no longer eligible for needs based aid.

Based on today's aid guidelines, parent-owned 529s appear the most efficient structure, and have relatively minor impact on the eligibility for aid. Given the high and continually rising cost of a college education, saving in a 529 account is still one of the best preparation tools out there.

From left:

Lori Spilde, *Client Services Manager*
lspilde@ascentialwealth.com

Brad Christiansen, *Financial Advisor*
bchristiansen@ascentialwealth.com

Daniel Maki, *Client Services Manager*
dmaki@ascentialwealth.com

Dave Kohlhaas, *Financial Advisor*
dkohlhaas@ascentialwealth.com

Kristin Rognerud, *Financial Advisor*
krognerud@ascentialwealth.com

Mike Owens, *Financial Advisor*
mike.owens@ascentialwealth.com

ASCENTIAL WEALTH ADVISORS

GET THERE FROM HERE

11 East Superior Street, Suite 508
Duluth, MN 55802
218.336.2500 • 888.840.8299

ascentialwealth.com

DISCLOSURES