



LEADING EDGE WEALTH ADVISORS



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Aretha Franklin passed away recently and it has been reported that she did not have a will so it will be difficult to have her final wishes and desires fulfilled as it relates to her assets. On the other hand, Senator John McCain was able to determine who he did not want at his funeral. Estate planning documents are important not just for wealthy people but for "everyday people" who have specific wishes they would like fulfilled.

There are four estate planning documents you may need, regardless of your age, health, or wealth: Will, Durable power of attorney, Advance medical directives, Letter of instruction.

A will is often said to be the cornerstone of any estate plan. The main purpose of a will is to disburse property to heirs after your death. If you don't leave a will, disbursements will be made according to state law, which might not be what you would want.

There are two other equally important aspects of a will: You can name the executor who will manage and settle your estate. You can also name a legal guardian for minor children or dependents with special needs. If you don't appoint an executor or guardian, the state will appoint one for you and that might not be someone you would choose.

Keep in mind that a will is a legal document, and the courts are very reluctant to overturn any provisions within it. Also keep in mind that that named life insurance and retirement plan beneficiaries override what is written in the will. Therefore, it's crucial that your will be well written and articulated, and properly executed under your state's laws. It's also important to keep your will and beneficiary designations up-to-date.

A letter of instruction is an informal, nonlegal document that generally accompanies your will and is used to express your personal thoughts and directions regarding what is in the will (or about other things, such as your burial wishes). This can be the most helpful document you leave for your family members and your executor.

A durable power of attorney (DPOA) can help protect your property in the event you become physically unable or mentally incompetent to handle financial matters. If no one is ready to look after your financial affairs when you can't, your property may be wasted, abused, or lost. A DPOA allows you to authorize someone else to act on your behalf, so he or she can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

Advance medical directives let others know what medical treatment you would want, or allows someone to make medical decisions for you, in the event you can't express your wishes yourself. If you don't have an advance medical directive, medical care providers must prolong your life using artificial means, if necessary.

There are three types of advance medical directives. First, a living will allows you to approve or decline certain types of medical care, even if you will die as a result of that choice. In most states, living wills take effect only under certain circumstances, such as terminal injury or illness. Generally, one can be used only to decline medical treatment that "serves only to postpone the moment of death." In those states that do not allow living wills, you may still want to have one to serve as evidence of your wishes. Second, a durable power of attorney for health care allows you to appoint a representative to make medical decisions for you. You decide how much power your representative will or won't have. Finally, a Do Not Resuscitate order (DNR) is a doctor's order that tells medical personnel not to perform CPR if you go into cardiac arrest.

This is just a brief overview of the estate planning documents you should have in effect. You should speak with an estate planning attorney for more specific recommendations. Remember if you don't have an estate plan, the state you live in has one for you.

September 2018

Infographic: Working in Retirement

Take Charge of Your Student Debt Repayment Plan

What are the new rules for 401(k) hardship withdrawals?

Should I enroll in a health savings account?





Infographic: Working in Retirement

Do You Plan to Work in Retirement?

The 2018 Retirement Confidence Survey found that more than two-thirds of all workers surveyed expect that paid work will play a role as a source of retirement income. If you believe that working for pay will supplement at least some of your retirement income, consider the following facts.

1



More people are working beyond age 65

According to the Bureau of Labor Statistics, 37% of men and 28% of women between the ages of 65 and 69 were still in the workforce in 2017. In addition, 17% of men and 10% of women age 70 and older were still working.

2



Social Security imposes an "earnings limit"

If you plan to work and claim Social Security benefits before reaching your full retirement age (66 to 67, depending on year and month of birth), you will be subject to an earnings limit (\$17,040 in 2018). Above that limit, \$1 will be withheld from your benefit for every \$2 earned. In the year you reach full retirement age, you will lose \$1 for every \$3 earned above a higher limit (\$45,360 in 2018). Once you reach full retirement age, there is no reduction in benefits.

3



Income for older workers is on the rise

According to the U.S. Census Bureau, the average earnings for workers age 65 and older increased by 47.6% between 2000 and 2015, a far greater increase than that of any other age group.



Take Charge of Your Student Debt Repayment Plan



If you have federal student loans, you aren't automatically eligible for an income-driven repayment plan — you have to fill out an application (and reapply each year).

Outstanding student loan debt in the United States has tripled over the last decade, surpassing both auto and credit card debt to take second place behind housing debt as the most common type of household debt.¹ Today, more than 44 million Americans collectively owe more than \$1.4 trillion in student debt.² Here are some strategies to pay it off.

Look to your employer for help

The first place to look for help is your employer. While only about 4% of employers offer student debt assistance as an employee benefit, it's predicted that more employers will offer this benefit in the future to attract and retain talent.

Many employers are targeting a student debt assistance benefit of \$100 per month.³ That doesn't sound like much, but it adds up. For example, an employee with \$31,000 in student loans who is paying them off over 10 years at a 6% interest rate would save about \$3,000 in interest and get out of debt two and a half years faster.

Understand all your repayment options

Unfortunately, your student loans aren't going away. But you might be able to choose a repayment option that works best for you. The repayment options available to you will depend on whether you have federal or private student loans. Generally, the federal government offers a broader array of repayment options than private lenders. The following payment options are for federal student loans. (If you have private loans, check with your lender to see which options are available.)

Standard plan: You pay a certain amount each month over a 10-year term. If your interest rate is fixed, you'll pay a fixed amount each month; if your interest rate is variable, your monthly payment will change from year to year (but it will be the same each month for the 12 months that a certain interest rate is in effect).

Extended plan: You extend the time you have to pay the loan, typically anywhere from 15 to 30 years. Your monthly payment is lower than it would be under a standard plan, but you'll pay more interest over the life of the loan because the repayment period is longer.

Example: You have \$31,000 in student loans with a 6% fixed interest rate. Under a standard plan, your monthly payment would be \$344, and your total payment over the term of the loan would be \$41,300, of which \$10,300 (25%) is interest. Under an extended plan, if the term were increased to 20 years, your monthly payment would be \$222, but your total payment over the term of the loan would be \$53,302, of which \$22,302 (42%) is interest.

Graduated plan: Payments start out low in the early years of the loan, then increase in the later years of the loan. With some graduated repayment plans, the initial lower payment includes both principal and interest, while under other plans the initial lower payment includes interest only.

Income-driven repayment plan: Your monthly payment is based on your income and family size. The federal government offers four income-driven repayment plans for federal student loans only:

- Pay As You Earn (PAYE)
- Revised Pay As You Earn (REPAYE)
- Income-Based Repayment (IBR)
- Income-Contingent Repayment (ICR)

You aren't automatically eligible for these plans; you need to fill out an application (and reapply each year). Depending on the plan, your monthly payment is set between 10% and 20% of your discretionary income, and any remaining loan balance is forgiven at the end of the repayment period (generally 20 or 25 years depending on the plan, but 10 years for borrowers in the Public Service Loan Forgiveness Program). For more information on the nuances of these plans or to apply for an income-driven plan, visit the federal student aid website at studentaid.ed.gov.

Can you refinance?

Yes, but only with a new private loan. (There is a federal consolidation loan, but that is different.) The main reason for trying to refinance your federal and/or private student loans into a new private loan is to obtain a lower interest rate. You'll need to shop around to see what's available.

Caution: If you refinance, your old loans will go away and you will be bound by the terms and conditions of your new private loan. If you had federal student loans, this means you will lose any income-driven repayment options.

Watch out for repayment scams

Beware of scammers contacting you to say that a special federal loan assistance program can permanently reduce your monthly payments and is available for an initial fee or ongoing monthly payments. There is no fee to apply for any federal repayment plan.

¹ New York Federal Reserve, Quarterly Report on Household Debt and Credit, February 2018

² CFPB, Innovation Highlights: Emerging Student Loan Repayment Assistance Programs, August 2017

³ Society for Human Resource Management, October 2, 2017

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What are the new rules for 401(k) hardship withdrawals?

The Bipartisan Budget Act passed in early 2018 relaxed some of the rules governing hardship withdrawals from 401(k)s and similar plans. Not all plans offer hardship withdrawals, but the ones that do will be required to comply for plan years beginning in 2019.

In order to take a hardship withdrawal from a 401(k) or similar plan, a plan participant must demonstrate an "immediate and heavy financial need," as defined by the IRS. (For details, visit the IRS website and search for Retirement Topics - Hardship Distributions.) The amount of the withdrawal cannot exceed the amount necessary to satisfy the need, including any taxes due.¹

Current (pre-2019) rules

To determine if a hardship withdrawal is qualified, an employer may rely on an employee's written statement that the need cannot be met using other financial resources (e.g., insurance, liquidation of other assets, commercial loans). In many cases, an employee may also be required to take a plan loan first.

Withdrawal proceeds can generally come only from the participant's own elective deferrals, as well as nonelective (i.e., profit-sharing) contributions, regular matching contributions, and possibly certain pre-1989 amounts.

Finally, individuals who take a hardship withdrawal are prohibited from making contributions to the plan — and therefore receiving any related matching contributions — for six months.

New rules

For plan years beginning after December 31, 2018, the following changes will take effect:

1. Participants will no longer be required to exhaust plan loan options first.
2. Withdrawal amounts can also come from earnings on participant deferrals, as well as qualified nonelective and matching contributions and earnings.
3. Participants will no longer be barred from contributing to the plan for six months.

¹ Hardship withdrawals are subject to regular income tax and a possible 10% early-distribution penalty tax.



Should I enroll in a health savings account?

A health savings account (HSA) is a tax-advantaged account that you can establish and contribute to if you are enrolled in a high-deductible health plan (HDHP). Because you shoulder a greater portion of your health-care costs, you'll usually pay a much lower premium for an HDHP than you would pay for traditional health insurance. This allows you to contribute the premium dollars you're saving to your HSA. Then, when you need medical care, you can withdraw HSA funds to cover your expenses, or opt to pay your costs out-of-pocket if you want to save your account funds. An HSA can be a powerful savings tool, especially if your health expenses are relatively low, since you may be able to build up a significant balance in your HSA over time. Before you enroll in an HSA, ask yourself the following questions:

What will your annual out-of-pocket costs be under the HDHP you're considering? Estimate these based on your current health expenses. The lower your costs, the easier it may be to accumulate HSA funds.

How much can you afford to contribute to your HSA every year? Contributing as much as you

can on a regular basis is key to building a cushion against future expenses. For 2018, you can contribute up to \$3,450 for individual coverage and \$6,900 for family coverage.

Will your employer contribute to your HSA? Employer contributions can help offset the increased financial risk that you're assuming by enrolling in an HDHP rather than traditional employer-sponsored health insurance.

Are you willing to take on more responsibility for your own health care? For example, to achieve the maximum cost savings, you may need to research costs and negotiate fees with health providers when paying out-of-pocket.

How does the coverage provided by the HDHP compare with your current health plan? Don't sacrifice coverage to save money. Read all plan materials to make sure you understand benefits, exclusions, and all costs.

What tax savings might you expect? HSA funds can be withdrawn free of federal income tax and penalties provided the money is spent on qualified health-care expenses. Depending on the state, HSA contributions and earnings may or may not be subject to state taxes. Consult your tax adviser for more information.