Financial Focus

A Newsletter for Clients and Friends of Ashton-Phillips Insurance

WINTER 2018

Choosing a Retirement Plan for Your Staff

IT'S GETTING tougher to recruit and retain quality employees. The best employees are demanding a quality retirement plan from their employers, among other benefits.

Small business owners looking to establish a retirement plan for themselves and their employees have a number of options – but the most common are the 401(k), the SIMPLE IRA and the SEP, or Simplified Employee Pension.

401(k)s

The 401(k) plan is the most flexible of the three, and generally allows enrollees to contribute the most money.

But, as an ERISA-qualified plan, it also requires a good deal of paperwork to administer.

A more basic version, the Solo 401(k) plan, offers the same benefits but is much less expensive and easier to set up and maintain. However, as the name implies, it is designed for sole proprietors, freelancers, consultants and independent contractors.

401(k)s allow for both pre-tax employer contributions of up to 25% of an employee's compensation and employee contributions of up to $18,000 per year through salary deferral, which are usually before tax.

Some plan sponsors choose to make a Roth option available, in which case employee deferrals are before tax, but distributions in retirement are tax-free. Employees age 50 or older may contribute an additional $6,000.

The 401(k) allows for high potential deferrals, especially for owners and highly compensated workers. However, you have to provide the same matching contribution percentage benefit for owners, key employees and rank and file employees alike.

Advantages

- You can begin penalty-free withdrawals at age 55 if you've left the company or are no longer in the workforce. Other plans make you wait until age 59½ before you can begin taking penalty-free withdrawals (except under IRC Section 72(t).)
- Relatively high contribution limits.
- Secure against creditors.

Disadvantages

- Complicated to set up and maintain.
- Solo 401(k)s are not appropriate if you plan to hire full-time employees.

continued on page 2

Ashton-Phillips Insurance Services, Inc.
1801 Century Park East,
Suite 2400 Los Angeles, CA 90067
(310) 277-3501 | (888) 277-3501
FAX (310) 277-3515
www.ashtonphillips.com

WELCOME TO MY NEWSLETTER!

In this issue and the coming months, my selection of articles will provide a wide range of information on life, health, disability and long-term care insurance, annuities, retirement and estate planning. Important topics that affect you and your family.

I hope you find these articles interesting and informative. I truly value our long relationship and want to stay in touch. If you want additional information or have questions on a specific topic in my newsletter, call or e-mail me. I am always available to answer questions and assist you with your insurance, retirement and estate planning needs.

Assessing your insurance and financial situation is as important as assessing your health. Make sure your retirement plan is on track. Call for a complimentary review of your insurance and investment portfolios.

Out-of-Pocket Maximums for HSAs, HDHPs

THE INTERNAL Revenue Service last year released the 2018 inflation-adjusted amounts for health savings accounts and high-deductible health plans.

The two types of account are related, as all HDHP participants must also have an accompanying HSA. But HSAs are also available to participants in more traditional health plans that do not have high deductibles.

If you have HDHP for your employees or are considering offering one, you'll want to pay attention to the changes for this year:

THE 2018 NUMBERS

	2018	2017
HSA maximum calendar-year contribution		
Self-only coverage	$3.450	$3,400
Family coverage	$6,900	$6,750
HDHP minimum annual deductible		
Self-only coverage	$1,350	$1,300
Family coverage	$2,700	$2,600
HDHP maximum out-of-pocket expense		
Self-only coverage	$6,650	$6,550
Family coverage	$13,300	$13,100

Please note that if you have a grandfathered plan, the Affordable Care Act limits the out-of-pocket maximum. For 2014, the limit was equal to the out-of-pocket maximum for HSAs.

So, therefore the maximum out-of-pocket that may be used under a non-grandfathered health plan in 2018 is $7,350 for self-only coverage and $14,700 for other than self-only coverage.

A recent analysis by the consulting firm Mercer found that the average per-employee cost of HSA-eligible plans is 13% less than that of a traditional PPO.

Despite that, while 53% of large employers offer such a plan, just 6% position it as a full replacement for traditional medical coverage.

Higher costs are one reason. Employers that offer HSA plans as a full replacement spend $9,991 per employee, versus $9,453 for plans that are offered as a choice.

Poor employee engagement is another factor. At companies that offer HSAs, only 24% of covered employees enroll in one.

When offered alongside other medical plans, just 40% of eligible employees choose an HSA to which their employer contributes, versus 35% when there is no employer contribution.

How to engage employees for HSAs

New research also suggests employees are drawn to a longer time horizon for HSAs.

More than 40% of HSA participants surveyed enrolled in their accounts to make use of them as savings vehicles for future health care needs.

That compares with the 21% of respondents who cited tax savings and the 9.5% who identified lower premiums as the chief reasons for their HSA participation.

This means that employers that offer HSA-linked plans should try to focus on showing their employees that even small extra savings, year-over-year, can accumulate to a nice nest egg going toward their future expenses.

Employers can make use of tools such as calculators to help participants determine how much they should be contributing to their accounts.

They also can encourage enrollment by raising awareness of the tax benefits.

continued from page 2

Retirement Plans for Your Employees

SIMPLE IRAs

The savings incentive match plan for employees IRA is designed to be an easier and simpler alternative to the 401(k) for businesses with fewer than 100 employees.

Employees can defer up to $12,500 of compensation each year. Those age 50 and older can contribute an additional $3,000 per year. Employers must generally match employee contributions dollar-for-dollar up to 3% of compensation, or a 2% non-elective contribution for all employees.

Advantages

- No filing requirements.
- The SIMPLE is much easier to set up than the 401(k).
- Offers employees substantial tax deferral – though not as much as the 401(k).

Disadvantages

- Employers can have no other retirement plan.
- Employers must commit to meeting the matching requirements.
- Early withdrawal fees are 25% .

SEPs

Under the Simplified Employee Pension plan, employers may make pre-tax contributions to each employee's account up to 25% of their wages, or $54,000, whichever is less. Only the employe makes contributions.

Employers cannot discriminate in favor of management – they must contribute the same percentage of compensation to all eligible employees over age 21.

An eligible employee is one who has worked for the employer for three out of the past five years.

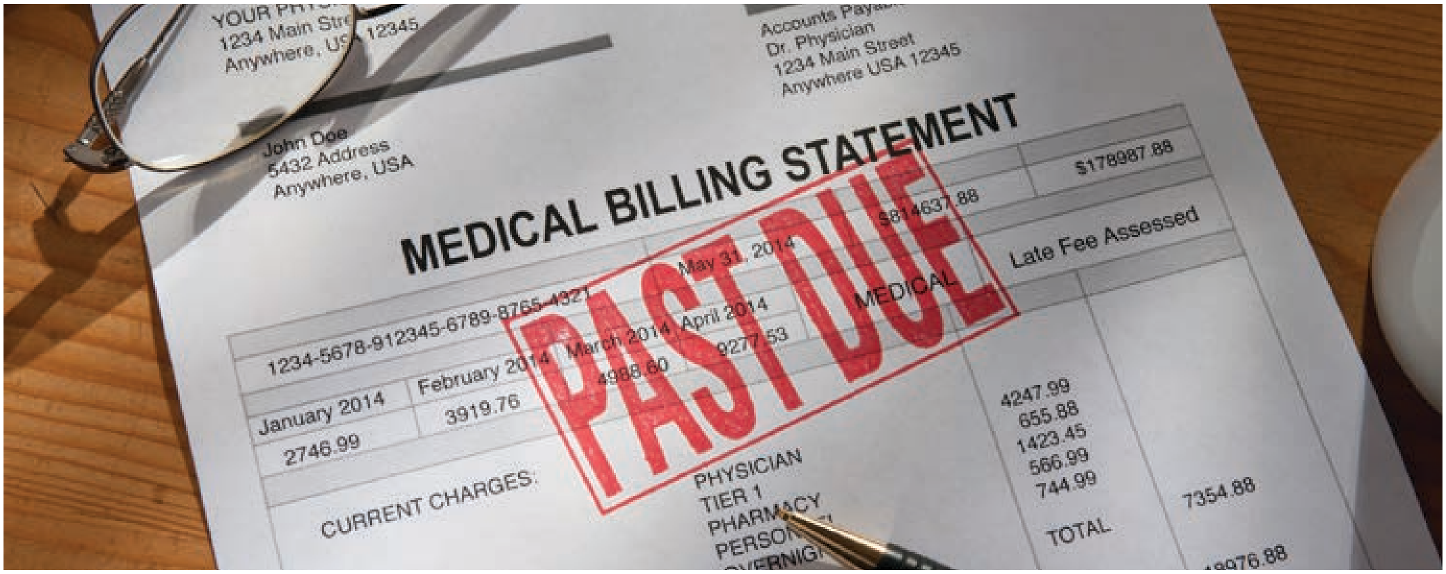
Advantages

- Easy to set up.
- Flexible.

Disadvantages

- Employees cannot shelter a large amount of income from taxes.
- Businesses may qualify for a tax credit to offset the costs of establishing small business retirement plans worth up to $1,500 over three years.

Long Term Care Coverage - Understanding Riders and Options



IF YOU'VE been shopping around or thinking seriously about long term care insurance (LTCi), then you are probably aware that this coverage protects you against risks that aren't generally included under major medical insuranc or Medicare.

For example, Medicare only covers nursing home expenses for a limited period of time, and even then only after a qualifying hospitalization. For coverage for long term custodial or nursing home care that involves anything other than recovery from a qualifying hospitalization, you need long term care insurance.

Just about all carriers will offer a set daily benefit, up to a lifetime cap. Beyond that, though, long term care insurance plan features, benefits and pricing can vary widely from carrier to carrier, and each of them offer a different mix of available riders and coverages. Here are a few common options:

Home Care Coverage

Some plans will provide a benefit that will pay for a nursing professional or nurse's aid or other caregiver to provide care for you in your home.

This benefit may make the difference between having the choice to stay in your own home and being forced to go to an institution. If this benefit is important to you, tell your agent.

Some carriers also allow the insured to begin accessing benefits for home care before the full elimination period has elapsed.

Spousal Riders

There are a number of riders that provide benefits specific to spouses, which can be very important to consider. For example:

Spousal Waiver of Premium: If one spouse goes on claim, the insurance company pays the long term care insurance premiums for the other spouse.

Spouse Survivorship: If two spouses have both had coverage with the same insurer for a certain number of years, and one spouse dies, the policy for the surviving spouse is fully paid up. That is, no further premiums are due. Sometimes this is built into the policy and sometimes you must purchase it as an additional rider. It depends on the carrier.

Shared Care: Two spouses are able to share a pool of money between them for care. For example, if two spouses each bought coverage with a lifetime limit of $300,000, and one spouse exhausted his or her individual pool of benefits, the couple could elect to begin using up the pool of benefits in the other spouse's policy.

Inflation Protection

Inflation protection allows the maximum daily benefit of your long term care insurance policy to increase over time along with inflation. Over time, long-term care costs have outpaced historical inflation by a substantial margin.

A maximum daily benefit that seems adequate now may be grossly inadequate when you have a claim, which can be thirty years away or even longer, depending on your age, health and luck.

INFLATION PROTECTION PLANS VARY

There are plans that:

- Automatically increase the maximum daily benefit by a set amount each year, keeping the premium level.
- Increase the daily benefit along with the consumer price index each year.
- Allow the insured an option to purchase additional daily benefit to keep up with inflation, regardless of their medical history.

Ashton-Phillips Insurance Services, Inc.
1801 Century Park East, Suite 2400
Los Angeles, CA 90067

FinancialFocus

Life Insurance Is More Than Just a Death Benefit

AMERICANS HAVE been through economic challenges during the last several years. Some withdrew funds from their 401(k) accounts to pay for rising costs of living while others maxed out credit cards.

However, many people fail to consider their life insurance policies and their investment benefits in such times.

When it comes to life insurance, the two main types are permanent and term.

Permanent policy: This policy blends an investment component with the death benefit to yield a higher cash value accrual over time. Many permanent policies come with options for accessing cash immediately when necessary.

Term policies: These policies only pay when the insured dies before the chosen term.

Permanent life choices

As long as the policyholder pays the premium, a permanent life insurance policy stays in place. It has a cash value that increases as time passes, and the policyholder can borrow against the value.

Life insurance premiums

Premiums are determined by the age at which a person buys a policy as life insurance is more expensive for older individuals.

Health also affects the cost. A person with a chronic illness would pay more than a person with no history of health issues.

While some companies will not insure people with cancer, diabetes and other serious chronic illnesses, others will simply charge more for placing them in a high-risk category.

Smoking or drinking problems within the past five years can negatively affect the premium, and dangerous hobbies such as sky-diving raise costs. Driving records, geographical location and occupation are also considered.

It helps to compare costs of different types of permanent life insurance before choosing a policy. To learn more about this type of life coverage, call us.

TYPES OF PERMANENT LIFE

- **Whole life** insurance comes with a fixed premium, a guaranteed death benefit and a guaranteed annual cash value, but lacks investment flexibility or coverage changes.
- **Variable life** insurance lets policyholders allocate funds from bonds, stocks and money market accounts with varying risk and growth levels, plus there is no minimum cash value guarantee ande minimal market risk.
- **Universal life** insurance lets the policyholder choose the timing and amount for payments, comes with a guaranteed growth for cash value and does not offer investment flexibility.
- **Variable universal life** insurance combines universal and variable policy provisions to offer the most flexibility, provide investment opportunities in several markets of choice and allow tax-free investment transfers in some instances.