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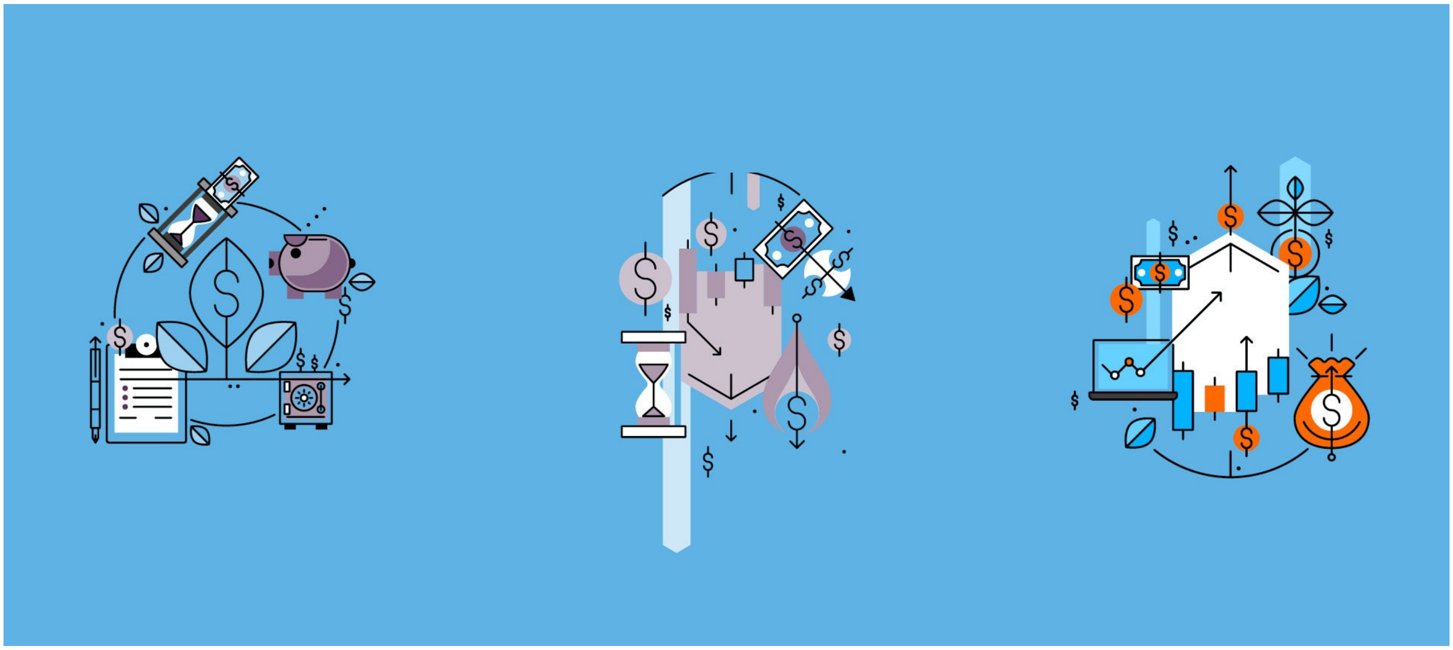

Ask the Experts: Financial FAQs (Winter 2016)

In this issue, we explore several recent changes to Social Security that may affect your benefit planning, best practices for creating an emergency fund for unforeseen expenses, and how to take advantage of healthcare savings accounts, an interesting planning tool with attractive tax benefits.

Q. What do I need to know about the changes to Social Security benefits enacted as part of the Bipartisan Budget Act of 2015?

A. With no advance warning, public hearing, or proposed legislation, Congress made several important changes to Social Security benefits as part of the Bipartisan Budget Act of 2015. While primary benefits remained unchanged, the budget deal ended two lesser-known but valuable Social Security strategies: file and suspend and restricted application for spousal benefits.

Let’s start with file and suspend. This strategy allowed wage earners at or beyond full retirement age to file for benefits and immediately suspend them, allowing their benefit to grow at 8 percent per year and, most importantly, to allow a spouse or dependent child to collect benefits worth up to 50 percent of the wage earner’s benefit.

Under the budget deal, file and suspend goes away, and the wage earner must be collecting benefits to trigger a spousal or dependent child benefit. If you have already filed and suspended, you are grandfathered in. If you will be age 66 by May, you can still file and suspend before that date. If you won’t be 66 by May, you are subject to the new rules. If you will be age 66 by May 1, 2016, you may want to consider whether the file and suspend strategy could be beneficial for you. There is no downside to doing it.

Restricted application allowed spouses or dependent children who were at or beyond Social Security's full retirement age to collect benefits based upon a spouse's earnings while allowing their own benefits to grow and retaining the ability to switch to those higher benefits later on. Going forward, if you are entitled to both a benefit from your own earnings record and a spousal benefit, you must take the higher of the two at the time you file. You won't have the option to switch later on. These new rules went into effect December 31, 2015.

As always, consult your financial advisor or visit the Social Security administration's website at https://ssa.gov for more information about how these recently enacted changes affect your personal situation.

Q. How much of a cash reserve should I keep on hand in case of emergency?

A. Building a financial plan is like building a house. You want to live in a house with a strong foundation, one that is likely to stand up against whatever Mother Nature throws at it. Similarly, a sound financial plan includes an appropriate cash reserve that provides liquidity in the event that you experience unforeseen expenses. Unforeseen expenses may include significant home or auto repairs, uncovered medical expenses, loss of income due to unemployment, illness, or disability, or the cost of bailing a family member out of a financial crisis. In any case, you'll want to have enough cash on hand to cover the expense without disrupting your longer-term savings or investment strategy—or requiring the sale of investments at an inopportune time.

The size of an appropriate emergency fund depends on several variables, but the single biggest variable is your employment status:

- **Still Working.** If you or your spouse is employed by a corporation or self-employed in a business with consistent cash flow, you should keep three to six months of your monthly expenses in a cash reserve. If you are concerned about your company's stability or the economic environment, you may want to increase those numbers to six to 12 months. If you're self-employed in a newer business or one with inconsistent cash flow or operating expenses, you may want a bigger cushion, perhaps as much as a year of expenses.
- **Retired.** Retirees should keep a cash reserve of 12 to 18 months of expenses. Of course, it is difficult to predict expenses during the first several years of retirement, so you may want to create a larger cushion—at least until you get a better handle on what you're going to spend on a regular basis.

Given today's low interest rate environment, you may not enjoy the idea of six months' expenses tied up in an account that's effectively earning nothing. You may want to consider a tiered cash reserve, splitting your emergency fund up between a checking account for paying bills, a savings or money market account that you can quickly transfer to checking, and a capital preservation-oriented investment strategy that you can liquidate in a few days, if needed.

Remember, your emergency fund is there to provide ready access to cash in the event you need it.

Capital preservation is a top priority, so you should consider the risks and restrictions placed on your money.

Q. What's the best way to take advantage of a health savings account (HSA)?

A. Health savings accounts—or HSAs—have taken off in recent years along with the increased availability of the high-deductible health plans with which they must be paired. HSAs allow an individual to set aside up to $3,350 a year or $6,750 for a family to fund medical expenses (in tax year 2016). If you are age 55 or older, you can set aside an extra $1,000 catch-up amount.

One reason for their appeal is that money in an HSA doesn't have to be used in the current year; you can add to and grow your account balance so it's available to pay future healthcare expenses, like those you will incur in retirement. HSAs offer several interesting advantages that may make setting aside the annual maximum family contribution appealing:

- **Current Tax Deduction.** Like 401(k) or 403(b) contributions, money coming out of your paycheck to fund an HSA reduces your taxable income.
- **Employer Contributions.** Some employers make contributions to the accounts of employees selecting high-deductible health plans as a way to entice them to participate. This is free money that you can take advantage of—like retirement plan matching contributions.
- **Tax-free Growth.** Earnings inside of HSAs compound free from taxes. This advantage has become much more meaningful as HSA balances have grown and investment choices have expanded.
- **Tax-free Distributions.** Money that comes out of an HSA to pay healthcare expenses is not subject to taxes.

HSAs won't make sense for everyone, but if you are healthy and comfortable using a high-deductible health plan, they might provide an additional tax-advantaged way to save for retirement healthcare expenses. You should consult your tax and financial advisors for more information.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

919.870.6822.