# Phase 3 Newsletter

*Weathering any Financial Season*


**Phase III Advisory Services**
John Bever, CFP®
President
1110 W Lake Cook Road
Suite 265
Buffalo Grove, IL 60089
847-520-5545
jwbever@phase3advisory.com
phase3advisory.com


**Check out our videos on the Client Center tab of our website for tips about using your Roth IRAs in your financial plan.**



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## Hidden Gem: HSAs in Retirement


When saving for retirement, you're probably aware of the benefits of using tax-preferred accounts such as 401(k)s and IRAs. But you may not be aware of another type of tax-preferred account that may prove very useful, not only during your working years but also in retirement: the health savings account (HSA).

### HSA in a nutshell

An HSA is a tax-advantaged account that's paired with a high-deductible health plan (HDHP). You can't establish or contribute to an HSA unless you are enrolled in an HDHP. An HDHP provides "catastrophic" health coverage that pays benefits only after you've satisfied a high annual deductible. However, you can use funds from your HSA to pay for health expenses not covered by the HDHP.

Contributions to an HSA are generally either tax deductible if you contribute them directly, or excluded from income if made by your employer. HSAs typically offer several savings and investment options. Your employer will likely indicate which funds or investment options are available if you get your HSA through work. All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost.

Withdrawals from the HSA for qualified medical expenses are free of federal income tax. However, money you take out of your HSA for nonqualified expenses is subject to ordinary income taxes plus a 20% penalty, unless an exception applies.

### Benefits of an HSA

An HSA can be a powerful savings tool. First, it may be the only type of account that allows for federal income tax-deductible or pre-tax contributions coupled with tax-free withdrawals. Depending upon the state, HSA contributions and earnings could be subject to state taxes. In addition, because there's no "use it or lose it" provision, funds roll over from year to year. And the account is yours, so you can keep it even if you change employers or lose your job.

### HSA as a retirement tool

During your working years, if your health expenses are relatively low, you may be able to build up a significant balance in your HSA over time. You can even let your money grow until retirement, when your health expenses are likely to be greater.

In retirement, medical costs may prove to be one of your biggest expenses. Although you can't contribute to an HSA once you enroll in Medicare (it's not considered an HDHP), an HSA can help you pay for qualified medical expenses, allowing you to preserve your retirement accounts for other expenses (e.g., housing, food, entertainment, etc.). And an HSA may provide other benefits as well.

- An HSA can be used to pay for unreimbursed medical costs on a tax-free basis, including Medicare premiums (although not Medigap premiums) and long-term care insurance premiums, up to certain limits.
- You can repay yourself from your HSA for qualified medical expenses you incurred in prior years, as long as the expense was incurred after you established your HSA, you weren't reimbursed from another source, and you didn't claim the medical expense as an itemized deduction.
- And once you reach age 65, withdrawals for nonqualified expenses won't be subject to the 20% penalty. However, the withdrawal will be taxed as ordinary income, similar to a distribution from a 401(k) or traditional IRA.
- At your death, if your surviving spouse is the designated beneficiary of your HSA, it will be treated as your spouse's HSA.

HSAs aren't for everyone. If you have relatively high health expenses, especially within the first year or two of opening your account, you could deplete your HSA or even face a shortfall. In any case, be sure to review the features of your health insurance policy carefully. The cost and availability of an individual health insurance policy can depend on factors such as age, health, and the type and amount of insurance.

# Tax Scams to Watch Out For


*It is important to remember that the IRS will never initiate contact with you by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media.*

While tax scams are especially prevalent during tax season, they can take place any time during the year. As a result, it's in your best interest to always be vigilant so you don't end up becoming the victim of a fraudulent tax scheme.

Here are some of the more common scams to watch out for.

## Phishing

Phishing scams usually involve unsolicited emails or fake websites that pose as legitimate IRS sites to convince you to provide personal or financial information. Once scam artists obtain this information, they use it to commit identity or financial theft.

It is important to remember that the IRS will never initiate contact with you by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media. If you get an email claiming to be from the IRS, don't respond or click any of the links; instead forward it to phishing@irs.gov.

## Phone scams

Beware of callers claiming that they're from the IRS. They may be scam artists trying to steal your money or identity. This type of scam typically involves a call from someone claiming you owe money to the IRS or that you're entitled to a large refund. The calls may also show up as coming from the IRS on your Caller ID, be accompanied by fake emails that appear to be from the IRS, or involve follow-up calls from individuals saying they are from law enforcement. Sometimes these callers may threaten you with arrest, license revocation, or even deportation.

If you think you might owe back taxes, contact the IRS for assistance at irs.gov. If you don't owe taxes and believe you have been the target of a phone scam, you should contact the Treasury Inspector General and the Federal Trade Commission to report the incident.

## Tax return preparer fraud

During tax season, some individuals and scam artists pose as legitimate tax preparers, often promising unreasonably large or inflated refunds. They try to take advantage of unsuspecting taxpayers by committing refund fraud or identity theft. It is important to choose a tax preparer carefully, since you are legally responsible for what's on your return, even if it's prepared by someone else.

A legitimate tax preparer will generally ask for proof of your income and eligibility for credits and deductions, sign the return as the preparer, enter the Preparer Tax Identification Number, and provide you with a copy of your return.

## Fake charities

Scam artists sometimes pose as a charitable organization in order to solicit donations from unsuspecting donors. Be wary of charities with names that are similar to more familiar or nationally known organizations, or that suddenly appear after a national disaster or tragedy. Before donating to a charity, make sure that it is legitimate. There are tools at irs.gov to assist you in checking out the status of a charitable organization, or you can visit charitynavigator.org to find more information about a charity.

## Tax-related identity theft

Tax-related identity theft occurs when someone uses your Social Security number to claim a fraudulent tax refund. You may not even realize you've been the victim of identity theft until you file your tax return and discover that a return has already been filed using your Social Security number. Or the IRS may send you a letter indicating it has identified a suspicious return using your Social Security number. If you believe you have been the victim of tax-related identity theft, you should contact the IRS Identity Protection Specialized Unit at 800-908-4490 as soon as possible.

## Stay one step ahead

The best way to avoid becoming the victim of a tax scam is to stay one step ahead of the scam artists. Consider taking the following precautions to keep your personal and financial information private:

- Maintain strong passwords
- Consider using two-step authentication
- Keep an eye out for emails containing links or asking for personal information
- Avoid scam websites
- Don't answer calls when you don't recognize the phone number

Finally, if you are ever unsure whether you are the victim of a scam, remember to trust your instincts. If something sounds questionable or too good to be true, it probably is.

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# Infographic: Financial Lessons from Football


## Review your game plan

You haven't saved enough for retirement...or for college. Your credit card debt is spiraling. You've been blindsided by unexpected expenses. When your finances hit a rough patch, call a time out and review your game plan. Rethink your strategy to account for changes in your personal life, the economy, or market conditions.

## Focus on fundamentals

Big plays are important, but so is steady execution. Even seasoned players need to focus on game fundamentals. One important financial fundamental is your budget. Once you know exactly how much money is coming in and how much is going out, you can identify what plays to call to get your finances back in shape.

## Make adjustments

Football teams make adjustments throughout the game. As you begin to make forward progress, keep the momentum going by regularly reviewing and fine-tuning your own game plan to balance competing priorities. Soon you'll be better prepared to tackle the challenges that stand between you and your financial goals.

"It's not whether you get knocked down, it's whether you get up."
-Vince Lombardi

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President
1110 W Lake Cook Road
Suite 265
Buffalo Grove, IL 60089
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jwbever@phase3advisory.com
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## Is bulk buying worth it?

In theory, buying goods in bulk seems like a smart, money-saving strategy. But in practice, is it really worth it? Next time you're out shopping, consider the following before you stock up on large quantities of your favorite products.

An obvious benefit of bulk buying is that it tends to be an economical way to shop because you're often paying a lower price per unit of each individual item. For example, buying a five-pound bag of potatoes will typically cost you less per pound than buying individual potatoes.

In addition to saving you some money, buying items in bulk can also save you time and energy. You won't need to take as many trips to the store if you've stocked up on essentials.

But there are some drawbacks to bulk buying. Unless you have a large family who will go through items bought in bulk quickly, it probably won't make as much sense for you to stock up on groceries and other household goods. Plus, items sold in bulk are often packaged in larger containers. You'll need to store these somewhere, and you might not necessarily have space to accommodate everything.

Also consider that some wholesalers charge membership fees. The cost of membership and frequency of renewal could be pricey.

While there are advantages and disadvantages to bulk buying, you can help determine whether it is worthwhile by asking yourself the following questions:

- Have you compared prices of bulk-packaged products to see if you're really getting a deal?
- Have you previously tried and liked the product? Can you bear the risk of having it go to waste if you discover that you don't like it after you've purchased a bulk quantity?
- Do you actually need that much of a particular item? Will it spoil before you can use it?
- Do you have enough storage space for items purchased in bulk?

Avoid buying in bulk just because you can. Take the time to consider your needs, and weigh wholesale rates against supermarket rates in order to help yourself save as much as possible.


## How can I protect my personal and financial information from credit fraud and identity theft?

In today's digital world, massive computer hacks and data breaches are common occurrences. And chances are, your personal or financial information is now susceptible to being used for credit fraud or identity theft. If you discover that you are the victim of either of these crimes, you should consider placing a credit freeze or fraud alert on your credit report to protect yourself.

A credit freeze prevents new credit and accounts from being opened in your name. Once you obtain a credit freeze, creditors won't be allowed to access your credit report and therefore cannot offer new credit. This helps prevent identity thieves from applying for credit or opening fraudulent accounts in your name.

To place a credit freeze on your credit report, you must contact each credit reporting agency separately either by phone or by filling out an online form. Keep in mind that a credit freeze is permanent and stays on your credit report until you unfreeze it. This is important, because if you want to apply for credit with a new financial institution in the future, open a new bank account, or even apply for a job or rent an apartment, you will need to "unlock" or "thaw" the credit freeze with each credit reporting agency.

A less drastic option is to place a fraud alert on your credit report. A fraud alert requires creditors to take extra steps to verify your identity before extending any existing credit or issuing new credit in your name. To request a fraud alert, you only have to contact one of the three major reporting agencies, and the information will be passed along to the other two.

Recently, as part of the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, Congress made several changes to credit rules that benefit consumers. Under the new law, consumers are now allowed to "freeze" and "unfreeze" their credit reports free of charge at all three of the major credit reporting bureaus, Equifax, Experian, and TransUnion. In addition, the law extends initial fraud alert protection to one full year. Previously, fraud alerts expired after 90 days unless they were renewed.