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Johnston Investment Counsel

LIFE THE WAY YOU PLANNED IT.

What to Do If Your Term Life Insurance Policy Is About to Expire

One advantage of term life insurance is that it is generally the most cost-effective way to achieve the maximum life insurance protection you can afford. Many people first purchase term life insurance to protect their family's financial interests after a significant life event, such as getting married or the birth of a child.

You may have done the same for your family when you purchased your policy years ago. And chances are, other than paying the premiums, you probably haven't given it much thought since then. However, if your term life insurance policy is set to expire in the near future, it's important to explore your options now before the coverage runs out.

Before you get started, you first need to reevaluate your life insurance needs and determine if anything has changed. Are your children grown and have they graduated from college? Do you have a mortgage? If you have financial obligations that you need to take care of, you may still need term life insurance. If you are nearing retirement and have fewer financial obligations than you did when you were younger, your need for a term life insurance policy may not be as great as it once was.

Purchasing a new policy

If you are in relatively good health and your current term life insurance policy is about to run out, you might consider purchasing a new term policy altogether. When applying for a new term life insurance policy, you will generally need to pass a medical exam. In addition, since you are older now, your premiums may be higher than they were under your old policy. However, you may not need as large a policy as you did when you first purchased term life insurance years ago. It may pay to shop around and compare because premiums can vary among insurers.

Renewing your existing policy

When the coverage period for your term life insurance ends, you may have the option to renew the policy, depending on the specific policy and limitations. Though you won't be required to take a medical exam if you renew your policy, the rate will generally increase each time it is renewed for an additional term because your age has increased (as has the insurance company's risk of paying a death benefit). These increased premium costs can sometimes make renewing a term life insurance policy an expensive way to cover your life insurance needs.

Converting your policy to permanent life insurance

If you have a convertible term life insurance policy, you may be able to convert it to a permanent life insurance policy, such as whole or universal life insurance. Permanent insurance continues throughout your life as long as you pay the premiums. As with term insurance, permanent insurance pays a death benefit to your beneficiary at your death, but it also contains a cash value account funded by your premium dollars. When you convert your policy, you won't need to prove your insurability by taking a medical exam. However, there is usually a conversion deadline, which is the date by which you must convert, typically before your term life insurance is set to expire.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing company.

The rules governing 1035 exchanges are complex and you may incur surrender charges from your "old" life insurance policy. In addition, you may be subject to new sales and surrender charges for the new policy.

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.

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What to Consider Before Moving in with Your Partner

According to the Pew Research Center, the number of U.S. adults cohabiting with a partner continues to rise as marriage rates fall. Approximately 18 million American adults were in cohabiting relationships in 2016, up 29% since 2007 when 14 million adults were cohabiting.

Source: Number of U.S. Adults Cohabiting with a Partner Continues to Rise, Especially Among Those 50 and Older, Pew Research Center, Washington, D.C. (April 6, 2017), [pewresearch.org.](pewresearch.org)

You and your significant other are ready to take the next big step in your relationship: moving in together. While this is an exciting milestone, it's also one that should prompt you and your partner to have some serious conversations about the financial implications of the move. Here are a few questions to consider that might help you and your partner live together more peacefully.

Do you have a financial plan?

Communication is key in making a relationship work. You should feel comfortable talking to your partner about anything, including money. Living together means that you're both responsible for contributing to your household.

Have an honest discussion with your partner about your financial plan. Share your attitudes toward money, your spending and saving habits, and your financial priorities. From there, build a monthly budget that works for both of you. Add up your monthly incomes and expenses. Include discretionary expenses (e.g., entertainment, travel, hobbies) as well as fixed expenses (e.g., housing, food, utilities, transportation). Be sure to factor in any debts you may have, such as student loan payments or credit card balances. This exercise will help you decide how much you and your partner should each contribute to your monthly bills. Do you and your partner earn roughly the same amount of money? Then it might make sense to contribute equally to your household expenses. But if one of you brings home a significantly larger paycheck, then you may want to divide expenses with that in mind.

Don't forget to talk to each other about your short- and long-term financial goals. Moving in together is likely the first of many major financial steps you'll take over the course of your relationship. Vacations, major purchases, and potentially children and retirement could also be part of your financial future. Discussing your common financial goals can help you and your partner stay on the same page and work together to help accomplish them.

How will you divide responsibilities?

Besides figuring out how you'll split household expenses, you and your partner will need to decide how you'll divvy up responsibilities like shopping for groceries, preparing meals, cleaning the living space, paying the bills, and other household tasks. Making assumptions about what needs to be done, when (and how often), and who will be responsible could result in arguments and potentially dissatisfaction with your living arrangement. Plan now so you and your partner can find a routine that works for you both.

Should you document your agreement?

Most states permit cohabitation agreements (also known as living together agreements or no-nups) that allow unmarried couples to agree on financial obligations to each other. It might seem formal to put your arrangement in writing, but it clearly captures what you and your partner have agreed upon and can help protect your rights and finances. Include details such as how much each partner will pay for rent, who will cover household expenses (and what those expenses might be), when bills are due, and other space-sharing arrangements considered important enough to document.

Revisit your agreement whenever you or your partner experience a change in circumstances, such as going back to school or receiving a major promotion at work. If you and your partner are engaged or considering getting married, bear in mind that your financial situation will legally change when you marry.

What if the unexpected happens?

It's an unpleasant thought, but what would happen if you and your partner ended your relationship? You might be reluctant to discuss the possibility, but it's important to have a plan in place for both of your sakes. Decide up-front who will get what in the event of a breakup. Consider the following:

- Who will stay in the apartment/house? Who will move out?
- Who will keep items you bought together (e.g., furniture)?
- Who will become the owner of any pets you share together?
- How will you settle any final bills?

Coming up with a plan now can help you and your partner avoid emotional and financial heartache if your cohabitation doesn't work out.

These can be difficult conversations to have with your partner, but being honest with each other and setting clear expectations can create a happier home for both of you.

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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.

New Tax Considerations for Couples Going Through A Divorce

Individuals thinking about divorce should be incorporating new tax rules in their plans. The recently enacted tax law impacts the taxation of alimony as well as the valuation of assets that are common in a divorce decree.

The biggest change, starting January 1, 2019, is that alimony will not be tax-deductible by the payor spouse and will no longer be considered income by the receiving spouse. In perhaps most situations, this change will have a negative financial impact as the alimony-paying spouse is generally in a higher tax bracket than the receiving-alimony spouse. As a result, the alimony-paying spouse receives more benefit than the receiving spouse. This will probably have the impact of lowering alimony payments – so the receiving spouse will be impacted as well.

The new rules do not go into effect until 2019. Divorces that are finalized prior to 2019 will be grandfathered under the old rules (payor can deduct alimony, recipient includes as income). Of course, given the acrimonious nature of divorce, settling during 2018 may be easier said than done. So, if the divorce will take place in 2019, be prepared to negotiate a different settlement.

In addition, the new tax law has added a qualified business income deduction as well as lower tax rates that impacts businesses formed as pass-through entities (where business profits are generally passed through to the owner as opposed to the company). Since pass through income is now taxed at lower rates, it theoretically raises the value of the business entity which could be a factor in the divorce settlement.

Lastly, the maximum taxpayers can deduct for state and local taxes – including property taxes – is now capped at $10,000. In high-tax areas, the house now becomes more expensive to own (since you may not be able to fully deduct your property taxes). The tax cap will probably impact the division of property as the parties try to equalize the financial settlement.

The message is that the tax law changes increase the level of complexity that divorcing couples will have to consider.

Do You Travel a Lot? Consider These Health Risks

Individuals that spend a lot of time on airplanes for work probably realize that type of lifestyle may not be beneficial to your health. Irregular sleep patterns, stress, unhealthy eating and drinking, and not enough exercise can lead to increased health risks.

A current analysis of electronic medical data on thousands of U.S. workers suggests the health implications may be worse than we previously thought. It found a correlation between the frequency of business travel and a broad array of health dangers.

The study found individuals who spend 14 or more nights/month away from home on business travel (around 12% of executives), have significantly higher body mass index scores and were more likely to report clinical symptoms of stress, depression, alcohol dependence, smoking, and trouble sleeping.

Confirming this data, a report on health insurance claims by the World Bank found that frequent travelers had considerably higher claims for ailments like back disorders, asthma, and stress compared to less-frequent travelers.

The researchers recommend that business travelers skip the late-night meals and drink at the hotel bar. Restaurant meals contain more calories per serving and is greater in total fat than meals prepared at home. In addition, travelers should look for exercise choices by simply staying at hotels with well-equipped fitness centers.

Companies could offer stress management counseling and coping strategies since anxiety is a constant travel companion. Maybe above all, workers can think about whether they actually need to be on the road so frequently.

U.S. Healthcare Costs

From a cost perspective, the U.S. health care system has been out of control for several years.

A recent study from the Kaiser Foundation found that nearly all developed countries have some kind of universal healthcare and, overall, their taxpayers pay lower prices for procedures and medication. The study discovered that the typical American spends over $10,000 annually for health expenses – the most of any other country by far. It comes to just under 18% of GDP. As comparison, the average citizen of a developed nation spends roughly $5,000 annually for comparable care -- half of what we do in the U.S. (see Chart 1)

But that may imply that residents of other countries have a lower access to care. Right? Not according to this study. Despite paying more, the average American has fewer physician consultations -- about 3.9 per individual per year, below the 7.6 average for other countries, and far from the 12.7 visits per Japanese citizen. (See Chart 2). The researchers also note that Americans have a shorter average stay in hospitals -- 6.1 days vs. 10.2 days for other developed countries.

The Kaiser study found that Americans pay more for a whole host of procedures such as knee replacement, angioplasty, coronary bypass surgery, MRI's, colonoscopies, and appendectomies. As an example, the study reported that the cost of a knee replacement in the U.S. ($28,184) is almost double the cost of a knee replacement in Australia ($15,941). In addition, many medications are also a lot more expensive to American individuals than to people living abroad.

The study does not provide any prescriptive recommendations; nor does it show whether the Affordable Care Act's passage benefitted or hurt America's standing. It doesn't draw conclusions at all – simply provides data for us to consider.

On the surface, it seems that other countries may have discovered ways to better manage costs without compromising access.

Chart 1

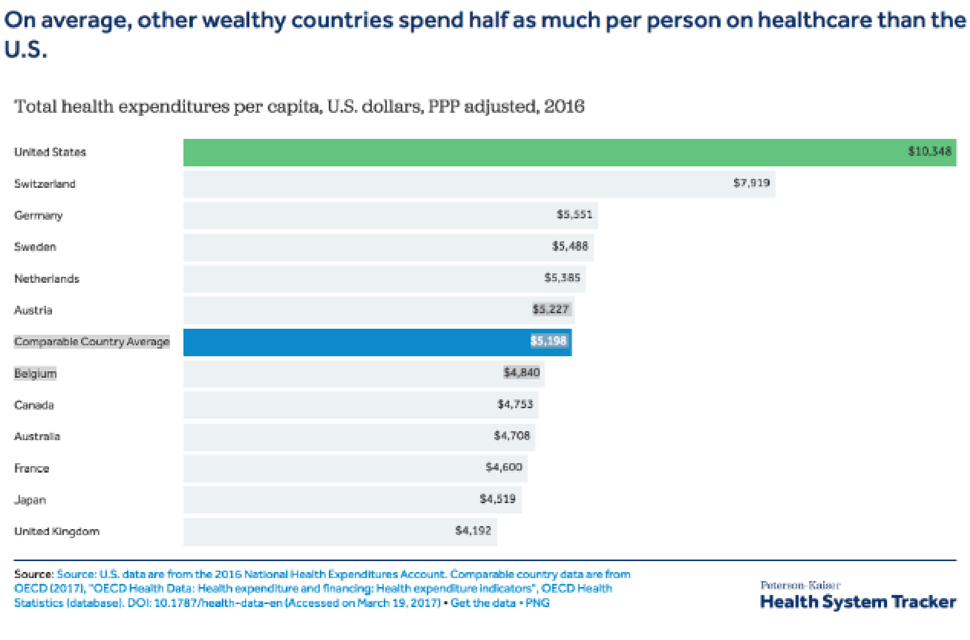
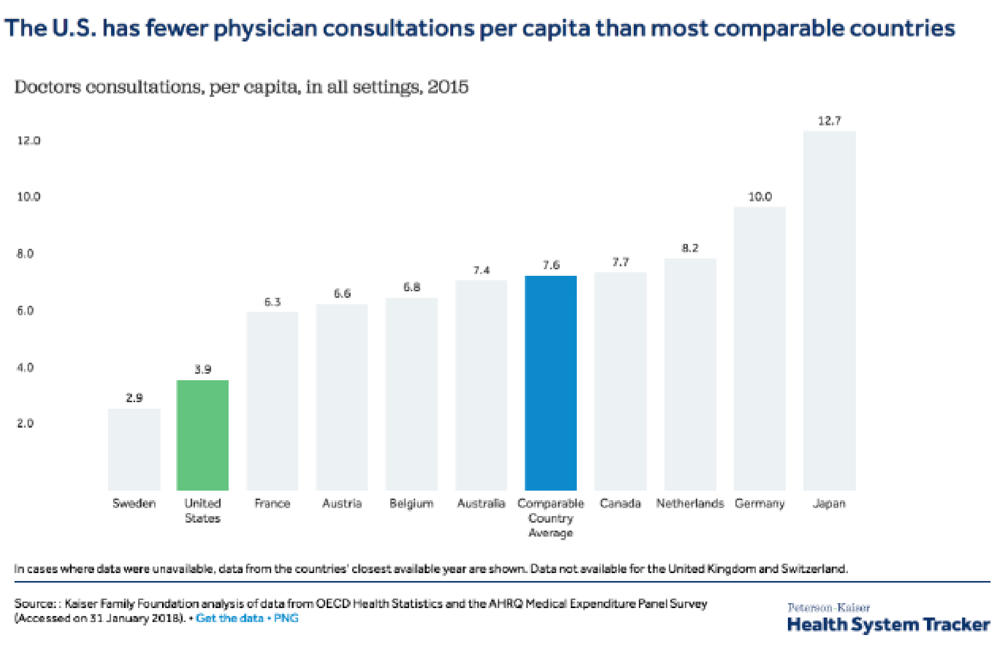


Chart 2



How Technology May Improve Your Health

Technology gadgets are moving past counting your steps, to more sophisticated activities such as improving your posture and correcting your running stride.

A post in the online version of Forbes magazine lists seven fitness-enhancing items you may want to consider as a way to facilitate a healthier body. Start with Zikto walk, a bracelet "coach" that examines your walking patterns by using several motion sensors. It reminds you to fix your posture and gait by a vibration on your wrist ($149).

Upright Go is designed to help relieve back pain and improve your posture. The small device adheres to the skin between the shoulder blades, instantly providing posture feedback whether you're walking, standing, or sitting. Results are posted to an accompanying IOS or Android program ($79).

Pip monitors your changing stress levels by holding the device between your thumb and forefinger. There are related apps that allow you reduce your stress through activities and games ($179).

Dharma Pro has been called the world's first intelligent seat cushion. It evaluates your posture, sitting time, and stress levels. It will remind you to sit properly by sending vibrations via the cushion ($199).

The Zepp attaches to a golf glove, tennis racket or calf sleeve (for soccer) to evaluate the mechanics of your game ($89-$149).

The Muse helps your meditation techniques. It tracks the current state of your brain, adjusting its recommendations to help you get a deeper sense of focus. It will track your sessions as your work toward peacefulness ($249).