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February, 2019

Tax Scams to Watch Out For
Reviewing Your Estate Plan

How can you lower the costs of owning a vehicle?

Is a vehicle subscription service in your future?



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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.



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.

Tax Scams to Watch Out For

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](https://www.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](https://www.treasury.gov) and the [Federal Trade Commission](https://www.ftc.gov) 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](https://www.irs.gov) to assist you in checking out the status of a charitable organization, or you can visit [charitynavigator.org](https://www.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.



Reviewing Your Estate Plan



An estate plan should be reviewed periodically, especially after a major life event. Here are some ideas about when to review your estate plan and some things to review when you do.

An estate plan is a map that explains how you want your personal and financial affairs to be handled in the event of your incapacity or death. Due to its importance and because circumstances change over time, you should periodically review your estate plan and update it as needed.

When should you review your estate plan?

Reviewing your estate plan will alert you to any changes that need to be addressed. For example, you may need to make changes to your plan to ensure it meets all of your goals, or when an executor, trustee, or guardian can no longer serve in that capacity. Although there's no hard-and-fast rule about when you should review your estate plan, you'll probably want to do a quick review each year, because changes in the economy and in the tax code often occur on a yearly basis. Every five years, do a more thorough review.

You should also review your estate plan immediately after a major life event or change in your circumstances. Events that should trigger a review include:

- There has been a change in your marital status (many states have laws that revoke part or all of your will if you marry or get divorced) or that of your children or grandchildren.
- There has been an addition to your family through birth, adoption, or marriage (stepchildren).
- Your spouse or a family member has died, has become ill, or is incapacitated.
- Your spouse, your parents, or another family member has become dependent on you.
- There has been a substantial change in the value of your assets or in your plans for their use.
- You have received a sizable inheritance or gift.
- Your income level or requirements have changed.
- You are retiring.
- You have made (or are considering making) a change to any part of your estate plan.

Some things to review

Here are some things to consider while doing a periodic review of your estate plan:

- Who are your family members and friends? What is your relationship with them? What are their circumstances in life? Do any have special needs?

- Do you have a valid will? Does it reflect your current goals and objectives about who receives what after you die? Is your choice of an executor or a guardian for your minor children still appropriate?
- In the event you become incapacitated, do you have a living will, durable power of attorney for health care, or Do Not Resuscitate order to manage medical decisions?
- In the event you become incapacitated, do you have a living trust or durable power of attorney to manage your property?
- What property do you own and how is it titled (e.g., outright or jointly with right of survivorship)? Property owned jointly with right of survivorship passes automatically to the surviving owner(s) at your death.
- Have you reviewed your beneficiary designations for your retirement plans and life insurance policies? These types of property pass automatically to the designated beneficiaries at your death.
- Do you have any trusts, living or testamentary? Property held in trust passes to beneficiaries according to the terms of the trust. There are up-front costs and often ongoing expenses associated with the creation and maintenance of trusts.
- Do you plan to make any lifetime gifts to family members or friends?
- Do you have any plans for charitable gifts or bequests?
- If you own or co-own a business, have provisions been made to transfer your business interest? Is there a buy-sell agreement with adequate funding? Would lifetime gifts be appropriate?
- Do you own sufficient life insurance to meet your needs at death? Have those needs been evaluated?
- Have you considered the impact of gift, estate, generation-skipping, and income taxes, both federal and state?

This is just a brief overview of some ideas for a periodic review of your estate plan. Each person's situation is unique. An estate planning attorney may be able to assist you with this process.



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How can you lower the costs of owning a vehicle?

Vehicle expenses can take a big bite out of your budget. According to a AAA report, the average annual total cost of owning and operating a new vehicle in 2018 was \$8,849. Fortunately, you may be able to save money by reducing three costs.

Depreciation: The loss of a vehicle's value over time was the largest expense associated with buying a vehicle, according to the AAA report. Depreciation accounts for almost 40% of the cost of owning a new vehicle — on average, \$3,289. Some cars hold their value better than others, so it's important to consider resale value before you buy. Because depreciation lessens over time, buying a used vehicle or keeping a vehicle longer can help minimize the impact of depreciation.

Insurance: The average annual cost of full-coverage auto insurance was \$1,189. Premiums are based on many factors, including the vehicle make and model, and your location. Some vehicles may cost substantially more to insure because they are statistically more likely to be damaged in a crash, stolen, or have high repair costs. So when you're in the market for a

vehicle, find out how much the insurance will cost before you sign the paperwork.

You can often save money on your insurance premium if you're willing to accept a higher deductible. You may also want to review your policy annually with your insurer to make sure you're receiving all the discounts for which you are eligible, and have only the coverage you need.

Maintenance and repairs: With an average annual cost of \$1,231, maintaining and repairing your vehicle is a big line item expense in your budget. So before you buy or lease a vehicle, talk to a trusted mechanic who is familiar with the cost of parts and general repair issues for the makes and models you're considering, or look for reliability statistics online. Get written estimates before you have any repairs completed, and shop around. Hourly labor rates and parts costs may vary widely. And keep up with regular maintenance. It can pay off in the long term, not only by preventing costly repairs but by potentially increasing your vehicle's resale value.

Source: AAA *Your Driving Costs*, 2018 Edition. Average costs are based on driving 15,000 miles annually.



Is a vehicle subscription service in your future?

Automakers and start-up companies are betting that today's generation of drivers will embrace a new model of temporary ownership called a vehicle subscription service.

A vehicle subscription service offers an alternative to buying or leasing. You don't have to sign a long-term contract or commit to just one vehicle. Once you join, you typically pay an all-inclusive monthly or sometimes weekly fee that covers the cost of using the vehicle you choose, including insurance, routine maintenance, roadside assistance, and a warranty. You then have the option of swapping out your vehicle periodically, depending on the terms of your subscription.

For example, perhaps you've been temporarily transferred to a new city and want a fuel-efficient car for the six months you're living there. Maybe you need a second car only during the summer when your child is home from college. Or you might want the flexibility to drive whichever vehicle suits your needs at the time — a luxury sedan for day-to-day driving, then a minivan for a family trip. If your needs change, you can return your vehicle and get

another, or end your subscription. Plans vary, but many subscription services require only a short one- to two-month minimum commitment, with the option to renew. Subscription services are often app-based, making it easy to find and swap vehicles, and your newest ride may be delivered to you via a concierge service.

Of course, flexibility and convenience come at a cost, which is often substantial, so if you are interested in subscribing to your next vehicle you'll need to carefully assess your options. Prices depend on the subscription service, the vehicle selected, and other factors such as mileage and extras. You may also be required to pay a sign-up fee.

Vehicle subscription services are evolving and are still not available everywhere. Many services are in the testing phase, and most have been launched primarily in major metropolitan markets such as Los Angeles, San Francisco, and New York, with a few offered in other cities. But vehicle subscription services are gaining traction, increasing the likelihood that they will someday be available in most areas.



Energy Independence Achieved

Quietly, the United States economy passed an extraordinary milestone. As of October, America became energy independent for the first time. As recently as 2008, the U.S. had spent 4% of its gross domestic product to purchase foreign oil and gas.

The shift is from a dramatic increase in crude oil and natural gas production from American wells. The U.S. is now the largest exporter of petroleum products – greater than (#2) Russia and (#3) Saudi Arabia. In addition, analysts expect output to accelerate from current levels.

There has also been a modest but significant acceleration in renewable energy. Today, according to a recent article in Fortune magazine, approximately 18% of all electricity in the U.S. is produced by solar, wind and hydroelectric dams. Since 2008, renewables' share of U.S. production has doubled, while coal's share has declined from 48% to 30%.

Energy independence, of course, has consequences for the economy. If OPEC attempts to lower production to raise energy prices, the U.S. economy may not be impacted as our facilities can increase output. The U.S. trade balance should also improve since we are now importing less energy.



IRA Contributions During Retirement

Here are a couple of common questions those over 65 ask about IRA's. Can I contribute to an IRA or a Roth IRA? When I start taking required minimum distributions (RMD) can I reinvest some or all of it back to IRA or Roth IRA?

If you have **earned income** you can contribute the lower of your earned income or \$7,000 (if you are over 50). The key is what type of income you are receiving. For example, income received from Social Security, portfolio income, annuity payments, required minimum distributions or a pension, is not considered earned income. In addition, rental income, for most people, is considered passive income – again not earned income.

However, if you are either self-employed or employed (in other words you have earned income), you can still contribute to an IRA -- with a few caveats. First your contribution cannot exceed the amount of earned income or \$7,000 (for someone over 50). However, once you turn 70 1/2, you can only contribute to a Roth IRA. Contributions to a traditional IRA would not be allowed.

As an additional complicating factor, there are income limits to IRA contributions. If you are making a traditional IRA contribution (and are therefore below 70 1/2), you may or may not be able to deduct your IRA contribution – depending on your level of adjusted gross income (AGI). Similarly, you may or may not be able to make a Roth IRA contribution – based on your AGI.

Yes, this is complicated. After all, the IRS and Congress was involved in creating the rules.



Reducing Volatility

There is an easy solution to reduce the volatility of your investment portfolio.

No, we are not suggesting you increase your cash allocation. We all now that will simply eliminate any future purchasing power – in many ways that is the riskiest strategy (that conversation for another time).

And, diversification will only go so far as we saw in 2008-09 and as recently as December. Given the global nature of things, most stock markets will decline in during bear market. Of course, the magnitude of the decline will vary.

The actual answer is: look at your portfolio less often.

A recent study looked at monthly historical returns data for four combinations of global stocks and bonds going all the way back to January of 1926, up until December 2017: 30/70, 50/50, 70/30 and 100/0. Each year, portfolios were rebalanced to their original allocations. The result shows what kind of volatility you would have experienced if you had looked once a month, once a year, once every five years or once every ten years.

Across all four portfolios, if you looked at all of them once a month, you would see a negative return about once every three months. If you looked once every 12 months, you would only see a negative return about every 6 years. And if you only looked once every 5 years, about 90% of the time you'd see a positive return. That is, nine out of ten times, your portfolio's value would have been higher than the last time you checked.

And if you only looked once every ten years, nearly every time, for all the portfolios, you would see a positive return. (Just once, the 100/0 portfolio showed a small negative performance number.)

Can you do this? Well, you don't check on the value of your house every day, week, month or even year, do you? The value of your house may well be fluctuating wildly every week, but you're unaware of this, because you're not getting a weekly appraisal. Chances are, your experience with this valuable and important investment is that when it comes time to sell, after multiple years of ownership, the value is greater than what you paid for it. It seems like no volatility at all.

In a world of hyper-inflated news it may be difficult not paying attention to the value of your portfolio. But the historical message is clear – the longer your holding period the more likely you will make money.