KEEN ON
RETIREMENT

Get A Big Jump on Your Year-End Tax Planning

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hey everybody. Welcome back to another episode of Keen on Retirement. I'm your cohost, Steve Sanduski, and joining me as always, Bill Keen and Matt Wilson. Gentlemen, how are you today?

Bill Keen: We're doing well here, Steve. We just landed in Kansas City about two hours ago from seeing some clients of ours down in Austin we were gone about 24 hours I think weren't we, Matt?

Matt Wilson: Yeah. It was a quick down and back.

Steve Sanduski: Yeah?

Bill Keen: Yeah. We were looking to get away from the heat here in Kansas City and then … and we went the wrong direction.

Steve Sanduski: Yeah. They say, "If you're trying to get away from the heat, why are you going south?"

Bill Keen: Right. We need to coordinate our trips a little bit.

Steve Sanduski: You need to go north, like to Milwaukee.

Bill Keen: Yeah. Well, exactly and there's something more behind that too in there, Steve.

Steve Sanduski: Yeah.

Bill Keen: We haven't come up and seen you.

Steve Sanduski: Yeah, yeah, no problem. Hey, well great guys, we got another great informative show lined up today. Today, we want to talk about some yearend financial planning strategies and as we enter the fourth quarter of the year, this will give us some ample time to take a look at some of the things we ought to be thinking about here for yearend from a financial planning standpoint. So where do you guys want to start there?

Bill Keen: If you look out at the information that comes to people online and in other sources, you'll see most of the time, these yearend to-do lists typically come out in mid-December and we thought this year, let's get out ahead of it a little bit. Let's do it before the fourth quarter or right as the fourth quarter opens and not give folks two weeks to have to figure all this stuff out.

Bill Keen: Don't you think that's a good idea?

Steve Sanduski: Yeah, yeah. If you wait until mid-December, it's kind of crunch time to get that stuff done so yeah, so that's a great idea here to start talking about this as we enter the fourth quarter and give folks some time to do some planning here.

Bill Keen: I think one of the big things that we see as time passes so quickly, it will be Thanksgiving, it will be the holiday season here and it will be New Year's before we know it is really thinking about several different categories but first and foremost probably would be tax planning. I think that's always going to be something folks should be thinking about at this time of year.

Matt Wilson: That's right. The tax side of things is where we probably see the biggest impact in where people need to make a decision before yearend. There's other yearend items but they don't necessarily need to happen before yearend. If something happened in January for example, one of the things in our checklists is just to review life insurance policies and coverage with your homeowner's policies but those don't have to happen before the end of the year specifically.

Steve Sanduski: Right.

Matt Wilson: But making decisions around taxes, those do.

Steve Sanduski: Yes, they do.

Matt Wilson: Yeah. The IRS is pretty adamant around a lot of that stuff. There's no going back once we get into the New Year.

Steve Sanduski: That's right. Yeah, and here in 2018, we had a lot of tax changes that took place as result of changes in the tax laws that occurred back in 2017.

Matt Wilson: One of the biggest ones is making sure that you've got your withholdings correct or at least have reviewed them and that's on both individuals and couples that are working, in addition to people that are retired. Because of the changes in the tax code this year, it is very important specifically to just make sure your withholdings are on track because based on what your employer decided to do, you could be overwithheld, underwithheld and so that's important.

Matt Wilson: Eliminate the surprises when it comes to filing your taxes in next year.

Bill Keen: That's right. That would apply to not only business owners that are making let's say, quarterly estimates of course but also W-2 employees, we talked a little bit offline before we went live and especially for folks who have had a change midyear. So someone has retired midyear or someone has changed jobs or had some kind of an event, an asset sale, an inheritance, any number of things that could cause something out of the ordinary as well.

Bill Keen: We really want to make sure folks have thought this through and Matt said, avoid the surprises come tax time.

Steve Sanduski: I'm curious guys, I got a question for you. So a lot of people like to get a tax refund yet the reality is when you get a tax refund, that simply means that you gave the government an interest-free loan of your own money.

Bill Keen: That's right, yeah.

Steve Sanduski: So I'm curious. So when you guys work with clients, do you try and structure it so that they owe zero additional taxes that they had the exact amount withheld as they needed to pay and they don't either owe nor do they get a refund or do you say, "Hey, we want you to actually have to pay some additional taxes at the end of the year. That way, the government is giving you an interest-free loan", or do you have an opinion on that?

Matt Wilson: We want to be as accurate as possible within $1,000 or so on either side, yeah, just so that there's not any big amount owed or big amount of refund. Now, that's the majority. Now, if someone has a special situation and I would define that as a large distribution out of a retirement account if that's your only source of tax withholding is to withhold from the IRA, well you have to pay tax on the tax that you withheld.

Bill Keen: Right.

Matt Wilson: That's just the way the tax code works and so if we have a large IRA distribution, we will recommend in those situations, well let's make sure that we take advantage of the safe harbor rules which say-

Steve Sanduski: Can you explain the safe harbor rule?

Matt Wilson: Yeah, the safe harbor rules just say that we have to pay it in at least what we paid in last year and then we're not subject to any penalty. Now, we might owe more than that but we're just not subject to the penalty. So once we pay in what we paid in last year, we might still owe but if we're going to take that distribution out after the first year to pay that income tax, we might be in a lower tax bracket next year. So that's why we just review the situation specifically.

Matt Wilson: So it's hard to just say we always do one or the other but the majority of people, we want to just nail it down as close as possible.

Steve Sanduski: Okay. What other tax things do we need to be thinking about here for yearend?

Matt Wilson: If you are 70.5 or older, you have the fine opportunity of taking out a required minimum distribution, so making sure that that is done before the end of the year.

Bill Keen: That's right. Yeah, a lot of people think that some of things, because we've been trained. Back when IRAs were invented in 1974 when we could put $2,000 a year in IRAs. Do you recall that, Steve?

Steve Sanduski: I do for sure. Yeah.

Bill Keen: Put $2,000 into IRA accounts. Back then, it was all deductible as well contributions but we've been trained, a lot of folks have, that we can do certain things, and we can, up until the time you file your income taxes, so up until mid-April of the following year but the reason … one of the reasons we did this podcast today was because these things we're talking about have to be done in the tax year that we're talking about. So those required minimum distributions definitely hit the list.

Matt Wilson: Yeah. Now, I was just doing a quick Google search while you were speaking.

Steve Sanduski: Matt, were you multitasking?

Matt Wilson: Well, you know, Google just reads my mind and it pops the information on my computer. In 1974, the IRA contribution limit was $1,500. I was thinking 2002 but I thought, I could type this in real quick. $1,500.

Steve Sanduski: Yeah.

Matt Wilson: But $2,000, the reason why? Okay. This is interesting. A little off topic here. $1,500 until 1981 and then from '82 all the way through 2001, it was $2,000.

Bill Keen: Interesting.

Matt Wilson: Then from 2002 onwards, it was $3,000. It's creeped up since then. It's $5,500 today. Now they have catch-up contributions too if you're over 50 years old. So that is just kind of the history or IRA contribution limits.

Bill Keen: It's nice but it certainly hasn't allowed folks to make a meaningful move the needle difference has it with those amounts.

Matt Wilson: That's right, yeah.

Bill Keen: Yeah, with those points.

Steve Sanduski: I guess one advantage of being over 50 like I am is I get to make, what is it, an extra $1,000 contribution for the catch-up contribution?

Matt Wilson: On a traditional IRA, yes sir.

Steve Sanduski: Yeah.

Bill Keen: Me too Steve, this year. I've announced that I turn 50 in December so I actually qualify.

Steve Sanduski: Okay.

Bill Keen: I'm just now 49 at this moment but this is next year. Yeah.

Steve Sanduski: You will soon join the exclusive club in the rarefied air of the 50 plus people.

Bill Keen: Yes sir. There's wisdom from the journey-

Steve Sanduski: That's right. Very good. All right. So what other tax things do we need to think about here?

Matt Wilson: Yeah. So along that, with those required minimum distributions, you also have the ability to do what's called a qualified charitable distribution from your required minimum distribution and so that is definitely something that if you're thinking about making any charitable contributions this year, if you also have to take a required minimum distribution to consider making that charitable contribution directly from your IRA and again, that has to be done before the end of the year.

Matt Wilson: So, another taxable situation that you need to do some planning on before the clock ticks over into 2019.

Steve Sanduski: That's right.

Bill Keen: We process a lot of those for folks, yeah, right here from the firm. So go ahead Steve.

Steve Sanduski: I was just going to say is the benefit of doing that, so when you take the required minimum distribution, if you take it to you, then that's income that you, correct me if I'm wrong, that's income you have to pay tax on, but are you saying that if you take … instead, if you redirect that required minimum distribution and you send it directly to a charity, then do you not have to count any of that as income?

Matt Wilson: That is correct.

Steve Sanduski: Okay.

Matt Wilson: It does not show up as AGI.

Steve Sanduski: Okay.

Matt Wilson: Yeah, that's the big benefit there because AGI can trigger other taxes before even your deductions and other things are applied so if we can minimize AGI as much as possible, that's a benefit.

Steve Sanduski: Okay. Yeah.

Bill Keen: It also increases Medicare premiums as well.

Matt Wilson: Yeah.

Steve Sanduski: Yeah.

Bill Keen: There's a lot of cascading factors to these things. Now, I might say the maximum that can be donated to charity through a QCD is $100,000. So, that's something to consider.

Steve Sanduski: Okay. Now, that $100,000, is that per married couple or is that like per individuals? How does that work?

Matt Wilson: So that's an individual limit because it's based on your acquired minimum distribution.

Steve Sanduski: Okay.

Matt Wilson: Now, along those same lines with charitable contributions via your RMD, there's also the ability to do what's called donor-advised funds.

Matt Wilson: So these are all things that we've talked about because they are part of the planning process and then more so this year, because of the limitations with the new Tax Cuts and Jobs Act, the donor-advised funds are also a way for people to donate cash, real estate, highly appreciated securities, into an account and receive a charitable deduction for the year that they do that.

Matt Wilson: Now those, you cannot take money directly from an IRA and put it into a donor-advised fund but you'd have to receive the money first to do it that way so that's why we would say just take the QCD if you're going to take it directly from your IRA via your RMD but the donor-advised fund again has to be funded before the end of the year.

Bill Keen: That's right.

Matt Wilson: That's the big key. We have to make these decisions now before we actually file our taxes next year.

Bill Keen: That's right, and before the end of the year.

Matt Wilson: That's right.

Bill Keen: So I think you've kind of glossed over something there. I think it's important that we come back to because a lot of people miss this if it's not pointed out. Matt mentioned highly appreciated securities. If someone is planning on making a donation, writing a check to a charity, that's wonderful but if they had securities that they have let's say, a low cost basis in that they like to identify a certain number of shares or a certain dollar amount, they can-

Matt Wilson: Held outside of your retirement account.

Bill Keen: Yup. It has to be held outside the IRA but they can shift those shares to a charity that's setup to accept those and most are and if they're not, and you're willing to give them shares, they typically figure out how to accept those. They're able to sell the securities with no tax. You didn't pay the capital gains tax on the security but you still were able to donate that same amount of money without triggering that capital gains tax.

Matt Wilson: Yeah.

Bill Keen: So these are things that you, like Matt said, you have to get out ahead of and think through here.

Matt Wilson: I know and we're full of little caveats. Also, to receive the full tax deduction for the value of the security, it has to be a long-term capital gain.

Bill Keen: Right. Something held over a year.

Matt Wilson: Yeah. That's why we talk a lot about the stuff and it can sound simplistic from a very high level once you get into some of the details. There's a lot of planning and a lot of nuances involved in some of these situations.

Bill Keen: Yes, there is.

Matt Wilson: Yeah. That's primarily on the charitable side of things. Now, the other factor with taxes, and this goes along the lines of unrealized and realized gains and losses is looking at any of the investments that you have outside of your retirement accounts and reviewing them for any tax loss harvesting opportunities.

Steve Sanduski: Okay. What do you mean when you say tax loss harvesting? What is that?

Matt Wilson: Yeah. That is if you have any investments that are down in value, you sell them and you've locked and you realize the loss on that investment and you can do a lot of things with that loss. You can just apply it towards any gains that you might have so you can offset any realized gains. You can review it and say, "Well, I don't have any realized gains but I have a stock that I want to sell that's up in value so let's now sell that one against the one I sold with a loss and kind of zero out the tax liability", or you can just combine all of these losses and carry them forward on your tax return.

Bill Keen: Right. So $3,000 is the maximum you can take-

Matt Wilson: Against income.

Bill Keen: Against ordinary income without offsetting the other potential capital gains. We've had multiple clients referred to the firm especially after '08, '09, when things in the markets went through a difficult time and you look at those tax returns and you see people had massive loss carryforwards.

Matt Wilson: Yeah.

Bill Keen: So some of them are still working those off but anyway, I would have another question for you. There are listeners who might be thinking. So you have investments that are down and you like the investment because we talk about buying low and selling high and like losses, we try to … we prefer to avoid losses. So when you say lock in losses, the lay person might think, "Well, that didn't sound like a very good deal. Why are we locking in losses?"

Matt Wilson: Yeah.

Bill Keen: What's the other piece to this?

Matt Wilson: That's right. So yeah. when you have an investment that's down in value, so you don't have to sell it. So of course, that's an option but this tax loss harvest strategy, essentially the value behind that is, let's sell it if it's down. There's some analysis that goes on whether we want to sell it or not but if we decide we're going to sell it, then we can take the proceeds and reinvest it in a similar security.

Matt Wilson: It can't be the same one-

Bill Keen: Or an index maybe.

Matt Wilson: Yeah and you might even sold an index and you're just in a similar index, can't be the exact same index but it can be a similar index. So you still have exposure to that asset class which is what you wanted originally, just took the loss and then if it goes back up in value, well you still have exposure via a similar security. Now, the rule is if you were to just sell it and then rebuy what you sold, you can't do that for 31 days.

Bill Keen: The next day, right. The wash sale rule would apply and you would have been all for naught.

Matt Wilson: You have to be careful of that and you also can't do it inside IRAs either so you can't sell it in your taxable account and then rebuy it the exact same security and then IRA account.

Bill Keen: So you're saying … Okay, let me just clarify this. You do this in an after tax account, you make the sale and over in the IRA account which lock … which is definitely different from a tax standpoint, if you repurchase that same security in an IRA account, that triggers the wash sale rule.

Matt Wilson: It does, yeah because you're-

Bill Keen: Okay.

Matt Wilson: Essentially, the IRS has caught on to … well, you're just kind of shifting your investments around just to avoid this wash sale rule and so they would combine all your accounts together in different custodians, they would look at your entire portfolio and say, "You can't buy that security back within 31 days in any of your investment accounts no matter where they're held or your spouse's name." It all gets combined.

Steve Sanduski: Okay.

Bill Keen: Yeah.

Steve Sanduski: But what you could do, correct me if I'm wrong, is let's say, you wanted to take a loss in the stock of Ford, the car manufacturer, so you could sell Ford but then you could immediately buy General Motors which of course, it's not the same as Ford but it's in the same industry and probably a lot of the fluctuation in the stock at General Motors would be similar to the things that would affect Ford and so you might be able to hold on to General Motors for 31 days to get exposure to the car market and then after 31 days, then you could sell your GM if you really wanted to own Ford again.

Steve Sanduski: That would be okay, right?

Matt Wilson:	That's right, yeah. It's a similar investment but not the same one, or you could also buy an index that just follows the automobile industry and get exposure that way.
Steve Sanduski:	Yeah.
Bill Keen:	I think I need to make a disclaimer here. We're not recommending selling or buying Ford or GM.
Steve Sanduski:	Yes.
Bill Keen:	It's just an example.
Matt Wilson:	Yeah. Okay.
Steve Sanduski:	For sure.
Matt Wilson:	That would have been a poor example in 2008 because if you sold Ford to buy GM, you would have lost all your money in GM.
Steve Sanduski:	There you go. Okay. I'm not making any recommendations here.
Matt Wilson:	Yes.
Steve Sanduski:	Past performance, there's no guarantee to future results.
Bill Keen:	Yes. Thank goodness if those were the examples.
Matt Wilson:	Yeah.
Steve Sanduski:	Yeah. So basically, what I'm hearing you guys say here as it relates to this saving some taxes here is there's a variety of different strategies when it comes to like charitable contributions, if you've got required minimum distributions, you can make charitable contributions directly from those and save having to pay some taxes, you've got some tax loss harvesting strategy so really, it does take some planning here. If people want to work with a fiduciary adviser like the folks here at Keen Wealth Advisors, these are the kinds of things that you guys sit down and talk to your clients about that save them real money.
Matt Wilson:	That's right, yeah. There's a lot on the tax side of things that people don't know and they mistake tax preparation for tax planning. We ask people, "Hey, do you have a tax plan in this?" "Well, I have a CPA" or, "I have a tax preparer." That's not necessarily what most of those tax people do. Primarily, it's because they don't get the information until you give it to them, typically February, March, April but you have to do these things the previous year.
Steve Sanduski:	Right.

Bill Keen: And they're good folks. You'd have to just hire them to do tax planning as opposed to just the preparation.

Steve Sanduski: Right. Exactly.

Matt Wilson: They don't necessarily think of these things and proactively call out not necessarily what business they're in and if you're, as a client, don't ask these questions to them, they wouldn't necessarily know that's something you're interested in.

Steve Sanduski: Right. Yeah.

Matt Wilson: So that's why we just … we go through our checklist to evaluate all of these situations.

Bill Keen: That's right. I think one last thing on taxes, I know there's a lot to it so it evolved talk about it here. What came to mind, we get this question quite often around the gift tax. So we talk about the estate tax a lot so for folks who passed away, I think the limit now is up to $11 million-

Matt Wilson: $11.2 million.

Bill Keen: $11.2 million per person can be passed without estate tax. But each of us are able to pass $15,000 to anyone actually without any gift tax so that means we don't have to pay any gift tax, they don't have to pay any tax if they receive the $15,000 and it doesn't have to be tracked anywhere. And we have some clients that are getting to the point where they have built substantial assets and they start to look at getting some of those assets transferred to the next generation and those need to be made in each calendar year as well.

Bill Keen: So husband, wife, you give one child each $15,000 so $30,000 there, if they have multiple kids, grandkids, those types of things. So that's a question we get quite often. Again, it was working up against that December 31 date.

Matt Wilson: Yeah.

Steve Sanduski: Yeah, and podcast hosts are also open to receiving those types of gifts too.

Matt Wilson: Okay.

Bill Keen: Yes. Are you suggesting that Matt and I include you in our charitable giving this year? It's not really charity-

Matt Wilson: Yeah. You don't get a deduction for that.

Bill Keen: It's considered a gift. A gift.

Matt Wilson: Yeah.

Bill Keen: Yeah.

Steve Sanduski: You guys are generous, I know.

Bill Keen: Yeah. Are you on Venmo, Steve? Can we Venmo you?

Steve Sanduski: I absolutely am on Venmo. You bet.

Bill Keen: Okay.

Steve Sanduski: My kids are Venmoing me left and right. They're using my credit card and I get a note from Venmo. Someone just paid you $36.50.

Matt Wilson: They're paying you back. Wow.

Bill Keen: Wait a second.

Steve Sanduski: They are, yeah. They pay me back.

Bill Keen: You've got incoming from the kids?

Steve Sanduski: I got incoming Venmos. I train these kids well.

Matt Wilson: Yeah.

Bill Keen: Are you back to even yet with them?

Steve Sanduski: No. No, it will be a while.

Bill Keen: All right, very good. very good. Matt, you had a couple more you mentioned-

Matt Wilson: Yeah, and these are … they are related to the tax side but they're also around the retirement side of things and so Roth conversions, that's a big one and that is just the evaluation of where we are in the tax bracket and should we convert any money out of our traditional IRA into a Roth IRA. Now, what you have to do, the IRS lets you do it at any age, there's penalties assessed, you just have to pay the income tax on any amount that you convert. So the analysis-

Bill Keen: In the year that you do it.

Matt Wilson: In the year that you do it and you have to do it before December 31st again so you have to think ahead about what my tax situation is going to look like and then we walkthrough clients and just go through, okay, what's all the income for the year and then let's just evaluate it and figure out how much tax are we going to pay overall but then also, what … how much tax are we going to pay because we converted this money?

Matt Wilson: It's different for everybody because people have different sources of income and then different taxes are triggered with these Roth conversion sometimes so it's not just a whamming a little bracket, let's convert money, it might be if you do that, you might start triggering tax on social security and then qualified dividends, long-term capital gains that you didn't pay otherwise. So it's just understanding what's going to happen but that is definitely something that on annual basis, people should be looking at especially if you're retired.

Bill Keen: That's right. One interesting thing you might find, Steve, is it is possible for a client to have multiple seven figures of liquid net worth and not have any real tax liability in a given year even though they're retired and they're living on their investments if you look … run through their tax scenario and they're maybe not taking a IRA distribution or maybe not taking social security.

Bill Keen: How about this, maybe they are taking social security and that's it and they're living on their after tax investments, investments that have already been taxed? So they're either selling securities that are down, in some cases, the accounts can actually be up in value substantially and there's maybe even a tax loss that gets passed through based on some of this tax loss harvesting maybe there's just a tax-neutral situation just based on the standard deductions or some of the other itemized deduction someone might have.

Bill Keen: There are really ways to get out ahead of these things and make sure that folks are maximizing things and of course, when you get to 70.5, don't you, if you have big IRAs now, you've got some pretty substantial tax coming out that you can't avoid. The thing I think we want to help folks understand today too is you can see one decision can have a tremendous cascading effect on a lot of different aspects to someone's financial situation and that's another reason to really get aware of these things.

Matt Wilson: That's right. Along that same retirement side, just evaluating if you planned on maxing at your 401(k), we want to just make sure you're on track to do that because occasionally, people look up and they were short just a little bit because of how the timing of maybe a bonus payment or just the percentage that they saved was just under what they thought it was so just double-check that.

Matt Wilson: Then more so, if you are 50 and over, make sure that your retirement plan, if you're working as a W-2. Employee for your employer, make sure that you have indicated that you want to participate with the catch-up contribution because not all plans ought to make that. Some do, but not all so you … in some cases, you have to physically check a box that you want the catch-up contribution.

Matt Wilson: That is definitely something that we find that people miss from time to time so that's very important.

Bill Keen: Yeah. That's a no-brainer. That's a deduction right off the top-

Matt Wilson: That's right.

Bill Keen: Now, you still pay FICA tax on it though, don't you?

Matt Wilson: You do. You do. So just making sure that you've checked those boxes or you at least evaluated it so you know where you'll be by the end of the year. If you're self-employed, also look at setting up any of your self-employed retirement accounts. Many of those have to be established before the end of the calendar year. So that is also another key component. Just get it open. You don't necessarily have to fund it, you just have to open the account before the end of the year.

Bill Keen: Which is surprising to folks because they … a lot of people extend … business people extend their tax return out until October of the following year thinking they have the time. They do if it's been setup right but if it's not, then you're scrambling them in and a lot of times, you've missed it.

Matt Wilson: Yeah. You need to make sure that that's setup.

Bill Keen: Steve, tell us about yours, your retirement plan.

Matt Wilson: Yeah.

Steve Sanduski: It's fully funded with Cryptocurrency, Bitcoin.

Matt Wilson: Okay. Have you been sorting it this year?

Bill Keen: Dodge that one.

Matt Wilson: Yeah.

Bill Keen: You have probably maxed out your retirement plan, don't you, with what you're able to do, Steve?

Steve Sanduski: Yeah, I do. I have to strike a balance between my money that's in qualified plans and my liquid assets for daily spending so that's the thing that I kind of balance between how much I have salted away in qualified plans that I don't really want to touch until I'm 59.5 or older without having to take the penalty for early withdrawal.

Bill Keen: Right. Right. It sounds like Steve might … he probably could benefit from a good checklist-driven process from a fiduciary firm like Keen Wealth, don't you think, Matt?

Matt Wilson: Yes.

Bill Keen: I know you learn a lot from these podcasts we're doing but-

Matt Wilson: Yeah.

Steve Sanduski: I am. That's right. I get great advice on these shows.

Bill Keen: Yes. Matt is trying to finish his list and I keep interrupting him.

Matt Wilson: Well, there's really one other key one. So there's a lot on our checklist but these are real key ones on your health insurance side of things. Typically, where … during the open enrolment for your company is in the fall so make sure you evaluate your options compared to what might be changing but if you do participate in a flexible spending account, so that is an FSA, so there's two of them, there's an FSA and what's called a HSA health savings account.

Bill Keen: Foxtrot, sierra, alpha?

Matt Wilson: FSA.

Bill Keen: Got it.

Matt Wilson: Yeah. The flexible spending account. That is a pretax deduction from your income, so whatever you participate, there's a limit, it's around $2,600 for a married couple to put money in this FSA. You have to use it in most cases, before the end of the year. Now, some plans extended out 2.5 months into the next year but it is something that if you don't use it within your window, you lose that money and it's only for expenses that were incurred during the calendar year that the plan was in place.

Matt Wilson: If you've already paid expenses, you can submit those for reimbursement but just make sure that you've covered that because you don't want to lose that money. That would just be a waste.

Bill Keen: That's right. That's right. Since we're on those, we talked about FSA and now we're talking … let's talk about hotel sierra alpha, the HSAs.

Matt Wilson: Yeah.

Bill Keen: If someone's objective is to maximize those, that's again, a yearend issue, right?

Matt Wilson: Yeah. You have to have a qualifying high deductible plan so not everyone can participate in an HSA. But an HSA basically allows you to save money pretax and then you don't lose it, it's indefinite for whenever you want to use it for qualified healthcare expenses and it's a tax-free benefit so you save money pretax, you take a distribution, there's no income tax applied and that also applies to the FSA, just FSA has the window you have to use it by.

Matt Wilson: On the HSA, the maximum amount is $6,900 for a married couple and so you have to just make sure that if you do want to max that out, that you're on track to do that. And the reason we're doing this show now before the end of December is because a lot of times, these have to be done through payroll deductions and so you've got to plan ahead, you can't just decide at the end of the year and write a check. They don't let you do that. You have to adjust your withholding percentages on your paycheck to make sure you maximize these things.

Matt Wilson: So it's $6,900 for 2018 and that's both your contributions and the employer. So if some employers put money in there for you, just the maximum between both $6,900 and then individuals just have that $3,450.

Bill Keen: Okay.

Steve Sanduski: Yeah, and I think HSAs are great and I definitely max those out every year and unfortunately use them to the max every year based on health expenses for variables folks here so … but yeah, that's definitely a good one.

Matt Wilson: Yeah.

Bill Keen: I think in regard to healthcare too on that, the Medicare open enrolment starts October 15th and goes through, I believe it's December 7th.

Matt Wilson: December 7th, yup.

Bill Keen: Yes. So there's a little window of time there where people can navigate and look around and see what may be their best interest, if the switch needs to occur so that's something to be aware of if someone is over 65 or over.

Matt Wilson: Yeah. If you're on Medicare, there is no downside to evaluate your … especially your Part D, your prescription drug plan every single open enrolment period. Just make sure review your formularies, make sure that they're still covered. What happens is they might change tiers and so you might have had a great coverage this year in 2018 but they're going to send you a big giant book with all the changes to your plan and if you don't read that, you're going to potentially go to the doctor or go to the pharmacy in January and you get a bill for four times what you paid last year because they changed the formulary.

Bill Keen: Right. We've even had council that some of the drugs have been completely dropped and it's been a huge surprise.

Matt Wilson: Yeah. Just by that carrier so you can change to a different carrier but you got to do that during the window.

Bill Keen: You know a funny thing about … well, it's not funny. This isn't funny but when they announce what the plans will be for the following year, Steve, they announce those in October. So they don't give you again, a whole lot of time to pivot around and do your research so we always recommend get with a good Medicare consultant that could help folks navigate those things too.

Matt Wilson: Yeah, and you can do it yourself on the Medicare website as well.

Bill Keen: That's right.

Matt Wilson: They do have a structure … If you're familiar with and you understand what you're looking at, you can find a lot of information on there but there's a lot of specialists that work with people as well.

Bill Keen: That's right.

Matt Wilson: We've seen no downside with working with an independent agent in most cases.

Steve Sanduski: Okay. All right guys, well, anything that you want to add here as we wrap up?

Bill Keen: Steve, we've covered a lot today and a lot of it had to do with taxes, tax planning and trying to be sensitive to and out ahead of those issues. We had some things around the healthcare issues as well, all very important. I think finally, one of the things that I always go back for everyone is really making sure that they've looked at and evaluated their free cash. What I mean by free cash is the capital that they have set aside in their own bank accounts in most cases.

Bill Keen: Even though they don't pay a whole lot of interest, but it's money that they know they can get their hands on if they have an emergency, they need to help maybe a child with some issue or even the air-conditioner breaks down or they needed to buy a new car, whatever amount that makes that family comfortable and it would get the job done, set aside, and the emergency reserve as we call it or the free cash is thought through.

Bill Keen: In that same spirit, at this time of year, and this goes for us too, I'm speaking to us, my hand is raised as they say, let's start thinking. This would be my first year to do this though that's why I'm rolling it out on the program. I'm going to hold myself accountable. I'm going to need to get my Christmas and holiday budget in line, start to think about what we're going to spend on the holiday, Steve. We don't want the big surprise in January when the credit card bill comes.

Bill Keen: We don't like carrying balances on credit cards.

Steve Sanduski: That's right.

Bill Keen: So we want to make sure we get our holiday budget thought through before we get into the holiday season. Yeah.

Steve Sanduski: It sounds like a plan, guys. Well, thank you. Another great episode, lots of valuable information here and we're getting this out early in the fourth quarter so folks have a good chance to plan on this and pan for this year as we go into the yearend so try and save some money. So if any of listening have any questions or comments, please feel free to go to keenonretirement.com. That's K-E-E-N on retirement.com. You can fill out the little form there and ask us a question or feel free to give us a call and we can chat with you and maybe set up an appointment to see what you got going on.

Steve Sanduski: So guys, thank you as always and we look forward to the next episode of Keen on Retirement.

Bill Keen: Great. Thank you, Steve.

Matt Wilson: Thanks Steve.