



THE DOLLAR CHASE

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CAUTION WITH ROTH TSP

As you are aware, the federal government thrift savings program now allows Roth contributions as well as traditional contributions, but what about withdrawals from that Roth account?

Contributions to the Roth TSP can be withdrawn any time, tax free, and penalty free. Earnings must stay five years and the person withdrawing must be 59 1/2 for earnings to be tax free and penalty free.

Maybe an example would show the caution necessary. Let's assume a government employee retired at age 57. The general rule allows withdrawals from TSP without an early withdrawal penalty if the retiree is 55.

Our retiree is 57 and asks for a withdrawal from the Roth TSP assuming no tax and no penalty. When the funds arrive, the retiree notices a 10% penalty and some tax withheld. What happened? First, the retiree is not 59 1/2. Second, TSP does a prorated withdrawal meaning some of withdrawal is contribution money and some is earnings. Again, age 59 1/2 is applied; so, tax and penalty are applied.

Need to be careful withdrawing Roth TSP funds.



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ALTERNATIVE WAYS TO USE HSAs

HSAs are often hailed as a boon to retirement savers, offering rare triple-tax advantage status. But these accounts, offered in tandem with high-deductible health insurance coverage, are far more versatile than they get credit for.

Typically thought of and discussed primarily as a way to help meet medical bills today or in their future retirement, HSAs can provide assistance beyond this narrow scope, with funds eligible for use to pay Medicare or COBRA premiums, long-term care, and non-medical expenses — all without jeopardizing that special tax treatment.

Once you enroll in Medicare, you can no longer contribute to the HSA, but you can do something you could never do on a high-deductible plan: use the money already stashed in it to cover the premiums.

HSA funds can pay for Medicare Parts A, B and D as well as copays for Part D. Medicare HMO, Medicare Advantage, and MAPD plan premiums are also eligible for reimbursement. However, HSAs cannot help with Medicare Supplement Plan or Medigap premiums.

But be aware, HSA's can normally be used to pay expenses incurred by the account owner's spouse or dependent, Medicare premiums aren't considered an eligible expense unless the account holder is 65. This means couples with any age gap need to consider whose name the HSA should be under or each open their own HSA so that the older partner doesn't have to wait until the younger turns 65 to take advantage of this rule. (Opening two separate HSAs will also allow clients age 55 or older to make dual \$1,000 catch-up contributions on top of the usual annual limits.)

While everyone may have the best intentions to save their HSA funds for future medical expenses in retirement, a year like 2020 can derail such plans. If someone needs additional funds, for, say, living expenses after a job loss, they can withdraw funds from their HSA without triggering taxes or a penalty. The catch? You must have unreimbursed past healthcare expenses.

As long as you had an open HSA when you incurred the medical expense and haven't yet tapped it to cover that cost, an amount equal to that bill can be withdrawn at any time and used for any purpose. You can claim back funds for expenses dating back to 2004, when HSAs were first introduced, provided you had an account. Receipts should be on hand to prove your story in case the IRS comes checking.

If you pull more from the HSA than you have in past medical bills, this move will trigger income tax and a 20% penalty on the amount unmatched to those unreimbursed health care expenses. Turning age 65 lessens this pain, as withdrawals need not be paired with a medical expense to avoid that 20% tax penalty. Income tax is still owed on funds removed for non-healthcare expenses if you don't have a past unreimbursed medical expense to use the withdrawal against.

Information from the Financial Planning Magazine - Kerri Anne Renzulli



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~ SHARLA, ERIC, RON, MELISSA, ED, REGINA, JILL, LYNNAE, KAREN, DARLINE, BRYAN AND CHARITY ~

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