2Q19

The Financial Solutions Advisor

Inside this issue:

Economic & Market Perspectives

U.S. ECONOMY
The history of the U.S. business cycle is one of long summers and short winters. Since 1960, the U.S. has experienced 616 months of expansion and only 93 months of recession.

Equally significant, the economy has become more stable over time, causing the length of expansions to increase. The current economic expansion is now in its 10th year, making this the second longest since the beginning of the 20th century. This is primarily due to better inventory controls, a more stable housing sector and the steady growth of more stable services sectors.
We believe that we are presently late cycle. But investors should remember that late cycle does not mean end of cycle, and slower growth does not mean recession.

BONDS
Globally, most major central banks are still directionally trending toward tightening monetary policy and normalizing their balance sheets. However, we have seen a pause in tightening this year as economic growth slows across the world.

The Federal Reserve appears to be on pause with rate hikes; however, it remains patient and data-dependent, carefully monitoring economic and financial conditions as they evolve. Balance sheet normalization will conclude by the end of September.

DOMESTIC STOCKS
2018 S&P 500 operating earnings growth looks set to close out the year at 21.8%, an impressive pace for the ninth year of an economic expansion. Full year 2019 S&P 500 earnings growth is set to decline by more than half, with current estimates pointing to 9.5% year-over-year. The risks, however, are tilted to the downside.

INTERNATIONAL STOCKS
The phrase of the day has moved away from 2017's "synchronized global growth" to the less cheerful "global slowdown." Indeed, global GDP growth has moved down from 3.8% in mid-2017 to 2.6% at the end of 2018.

As a result, global economic growth downshifted, but it did not stall. 4Q18's global GDP print of 2.6% is a bit lower than the 15-year average of 2.9%, but it still sits above early 2012's 1.7% pace and certainly above the negative levels of 2008 and 2009.

Source: J.P. Morgan Asset Management

2019 Returns

S&P 500	*13.65%*
NASDAQ	*16.89%*
Russell Small Cap	*14.58%*
Russell Mid Cap	*16.54%*
MSCI EAFE	*9.98%*
MSCI World	*12.48%*
Barclay US Agg. Bond	*2.94%*
Barclay Municipal Bond	*2.90%*

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 2019, you can contribute up to $3,500 for individual coverage and $7,000 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.

Contact us:

8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 *Main*
773.714.1550 *Facsimile*
www.fsadvisorygroup.com

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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. 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 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.

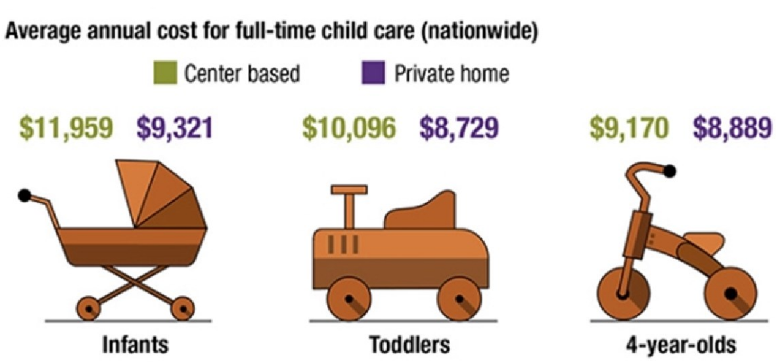
Stay one step ahead
The best way to avoid becoming the victim of a tax scam is to stay one step ahead of the scam artists. Consider taking the following precautions to keep your personal and financial information private:

- 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, then it probably is.

How Much Does Child Care Really Cost?

Typical child-care fees vary widely by state, as do other living costs. But in all regions, the average annual cost of center-based care for one infant now exceeds the average amount of money families spend on food and transportation combined. Child-care costs for two children exceed the median cost of housing for homeowners with a mortgage in 35 states and the District of Columbia.



Source: Child Care Aware of America, 2018 (data for 2017)

Rules on Opening a 529 Plan Account for College

Year over year, participation in 529 plans continues to rise.[1] Anyone can open an account, lifetime contribution limits are typically over $300,000, and there are tax benefits if the funds are used for college. Here are some common questions on opening an account.

Can I open an account in any state or am I limited to my own state's 529 plan?

Answer: It depends on the type of 529 plan you have: college savings plan or prepaid tuition plan. With a college savings plan, you open an individual investment account and direct your contributions to one or more of the plan's investment portfolios. With a prepaid tuition plan, you purchase education credits at today's prices and redeem them in the future for college tuition. Forty-nine states (all but Wyoming) offer one or more college savings plans, but only a few states offer prepaid tuition plans.

529 college savings plans are typically available to residents of any state, and funds can be used at any accredited college in the United States or abroad. But 529 prepaid tuition plans are typically limited to state residents and apply to in-state public colleges.

Why might you decide to open an account in another state's 529 college savings plan? The other plan might offer better investment options, lower management fees, a stronger investment track record, or better customer service. If you decide to go this route, keep in mind that some states may limit certain 529 plan tax benefits, such as a state income tax deduction for contributions, to residents who join the in-state plan.

Is there an age limit on who can be a beneficiary of a 529 account?

Answer: There is no beneficiary age limit specified in Section 529 of the Internal Revenue Code, but some states may impose one. You'll need to check the rules of each plan you're considering. Also, some states may require that the account be in place for a specified minimum length of time before funds can be withdrawn. This is important if you expect to make withdrawals quickly because the beneficiary is close to college age.

Can more than one 529 account be opened for the same child?

Answer: Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, as long as you do so under different 529 plans (college savings plan or prepaid tuition plan). For example, you could open a college savings plan account with State A and State B for the same beneficiary, or you could open a college savings plan account and a prepaid tuition plan account with State A for the same beneficiary. But you can't open two college savings plan accounts in the same 529 plan in State A for the same beneficiary.

Also keep in mind that if you do open multiple 529 accounts for the same beneficiary, each plan has its own lifetime contribution limit, and contributions can't be made after the limit is reached. Some states consider the accounts in other states to determine whether the limit has been reached. For these states, the total balance of all plans (in all states) cannot exceed the maximum lifetime contribution limit.

Can I open a 529 account in anticipation of my future grandchild?

Answer: Technically, no, because the beneficiary must have a Social Security number. But you can do so in a roundabout way. First, you'll need to open an account and name as the beneficiary a family member who will be related to your future grandchild. Then when your grandchild is born, you (the account owner) can change the beneficiary to your grandchild. Check the details carefully of any plan you're considering because some plans may impose age restrictions on the beneficiary, such as being under age 21. This may pose a problem if you plan to name your adult son or daughter as the initial beneficiary.

What happens if I open a 529 plan in one state and then move to another state?

Answer: Essentially, nothing happens if you have a college savings plan. But most prepaid tuition plans require that either the account owner or the beneficiary be a resident of the state operating the plan. So if you move to another state, you may have to cash in the prepaid tuition plan.

If you have a college savings plan, you can simply leave the account open and keep contributing to it. Alternatively, you can switch 529 plans by rolling over the assets from that plan to a new 529 plan. You can keep the same beneficiary when you do the rollover (under IRS rules, you're allowed one 529 plan same-beneficiary rollover once every 12 months), but check the details of each plan for any potential restrictions. If you decide to stay with your original 529 plan, just remember that your new state might limit any potential 529 plan tax benefits to residents who participate in the in-state plan.

[1] *Strategic Insight, 529 Data Highlights, 3Q 2018*

GOAL

$25,000

To help pay a child's or grandchild's educational expenses.

SAVE

$152

Monthly Investment

Assuming a 10-year time frame and a 6% average annual return, your monthly investment would need to be $152.

$18,240

Total Investment

BORROW

$278

Monthly Payment

Assuming a 10-year repayment period and a 6% interest rate, the monthly student loan bill would be $278.

$33,360

Total Repayment

The Bottom Line

Borrowing to meet $25,000 in college expenses could cost **$15,120 more.**

If your annualized return was less than 6% the investment amount needed to reach $25,000 would be higher, and borrowing to meet college expenses might still be necessary.

Quiz: How Much Have You Thought About Health and Health Care Costs in Retirement?

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Please contact us if you would like to receive this publication by e-mail.

**8700 W. Bryn Mawr Ave.
Suite 410-N
Chicago, Illinois 60631
773.714.1540 *Main*
773.714.1550 *Facsimile*
www.fsadvisorygroup.com**

When planning for retirement, it's important to consider a wide variety of factors. One of the most important is health and its associated costs. Thinking about your future health and the rising cost of health care can help you better plan for retirement in terms of both your finances and overall well-being. This quiz can help you assess your current knowledge of health and health care costs in retirement.

Questions

1. Health care costs typically rise faster than the rate of inflation.
True.
False.

2. You could need more than $500,000 just to cover health care costs in retirement.
True.
False.

3. Medicare covers the costs of long-term care, as well as most other medical costs.
True.
False.

4. The southern, warmer states are generally the healthiest places for seniors to live.
True.
False.

5. If you're concerned about health care costs in retirement, you can just delay your retirement in order to maintain your employer-sponsored health benefits.
True.
False.

Answers

1. True. The average inflation rate from 2010 to 2017 was less than 2%, while the average spending on prescriptions, doctors, and hospitals grew between 4% and 5%. From 1970 to 2017, annual per-capita out-of-pocket spending on health care grew from about $600 to approximately $1,100 (in 2017 dollars).[1]

2. True. In 2017, America's Health Rankings projected that a 45-year-old couple retiring in 20 years could need about $600,000 to cover their health care costs, excluding the cost of long-term care. The same report projected that about 70% of those age 65 and older will need some form of long-term care services. And according to the Department of Health and Human Services, the average cost of a one-year stay in a nursing home (semi-private room) was $82,000 in 2016.[2]

3. False. Original Medicare Parts A and B help cover inpatient hospital care, physicians' visits, preventive care, certain laboratory and rehabilitative services such as physical therapy, and skilled nursing care and home health care that are not long term. Medicare Part D helps cover the cost of prescriptions (within certain guidelines and limits). Medicare does not cover several other costs, including long-term care, dental care, eye exams related to eye glasses, and hearing aids. Seniors may need to purchase additional insurance to cover these and other services not covered by Medicare.[3]

4. False. Interestingly, America's Health Rankings found that the five healthiest states for seniors were (1) Utah, (2) Hawaii, (3) New Hampshire, (4) Minnesota, and (5) Colorado.[4]

5. Maybe true, maybe false. Many people believe they will work well into their traditional retirement years, both to accumulate as large a nest egg as possible and to take advantage of employer-sponsored health benefits (if offered beyond Medicare age). While this is an admirable goal, you may not be able to control when you actually retire. In a 2018 retirement survey, nearly 70% of workers said they planned to work beyond age 65; 31% said they would retire at age 70 or older. But the reality is that nearly 70% of current retirees retired before age 65. Many of those individuals retired earlier than planned due to a health problem, disability, or other unforeseen hardship.[5]

The bottom line is that while it's hard, if not impossible, to predict your future health needs and health care costs, it's important to work these considerations into your overall retirement planning strategies. Take steps now to keep yourself healthy — eat right, exercise, get enough sleep, and manage stress. And be sure to account for health care expenses in your savings and investment strategies.

[1] *Consumer Price Index, Bureau of Labor Statistics, 2018, and Peterson-Kaiser Health System Tracker, 2018*

[2] *Preparing for Health Care Costs in Retirement, America's Health Rankings, 2017, and LongTermCare.gov, 2018*

[3] *Medicare.gov*

[4] *Senior Report, America's Health Rankings, 2018*

[5] *2018 Retirement Confidence Survey, Employee Benefit Research Institute*