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**We keep moving forward, opening new doors, and doing new things, because we're curious and curiosity keeps leading us down new paths.** *Walt Disney*

*Thank you to all of our clients and friends for your patience and understanding during our recent office renovations. Renovations are complete, and we have returned to our beautiful new space.*

*We look forward to your next visit and to providing our clients with an enhanced experience and a superior level of service.*

*From All of Us at*

*Bartholomew & Company*

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InvestmentNews BEST PLACES TO WORK 2018 FOR FINANCIAL ADVISERS

BARTHOLOMEW & COMPANY

# Down the Donut Hole: The Medicare Coverage Gap

One of the most confusing Medicare provisions is the prescription drug coverage gap, often called the "donut hole." It may be clearer if you consider the gap within the annual "lifecycle" of Medicare Part D Prescription Drug Coverage. This also applies to drug coverage that is integrated into a Part C Medicare Advantage Plan.

**Annual deductible.** Prescription drug plans typically have an annual deductible not exceeding $405 in 2018. Before reaching the deductible, you will pay the full cost of your prescriptions, although you may receive negotiated discounts.

**Initial coverage period.** After you meet the annual deductible, your plan will pay a portion of your prescription drug costs, and you will typically have a copayment or coinsurance amount. A 25% coinsurance amount is the standard coverage required by Medicare, but most plans have different levels or "tiers" of copayments or coinsurance for different types of drugs.

**Coverage gap.** When you and your plan combined have spent a specified amount on drugs for the year ($3,750 in 2018), you enter the coverage gap. In 2018, you pay 35% of your plan's price for covered brand-name prescription drugs and 44% of the price for generic drugs. The gap is closing over the next two years (see chart).

You remain in the coverage gap until you reach an annual out-of-pocket spending limit ($5,000 in 2018). Spending that counts toward the limit includes your deductible, copay, and coinsurance; the manufacturer's discount on brand-name drugs in the coverage gap; and your out-of-pocket payments in the gap. It does not include your premiums, the amount the plan pays, or your payments for noncovered drugs.

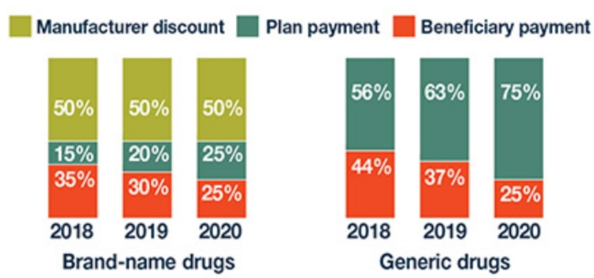
**Catastrophic coverage.** Once you have reached the out-of-pocket limit, you receive catastrophic coverage with much lower payments. In 2018, you would pay the greater of 5% of drug costs or $3.35/$8.35 for each generic and brand-name drug, respectively.

Some plans have more generous coverage in the gap. You may be able to avoid the coverage gap by using generic medicine, when appropriate, to lower your drug costs.

For more information, see [Medicare.gov.](Medicare.gov)

**CLOSING THE GAP**

**Beginning in 2013, the Affordable Care Act required drug manufacturers to provide a 50% discount on brand-name drugs, and since then the percentage that beneficiaries must pay has been gradually reduced. By 2020, beneficiaries will pay no more than the standard 25% coinsurance amount for all covered drugs, effectively ending the coverage gap.**




Source: Centers for Medicare & Medicaid Services, 2017

*No investment strategy can guarantee success. All investing involves risk, including the possible loss of your contribution dollars.*

*There is no assurance that working with a financial professional will result in investment success.*

# On the Road to Retirement, Beware of These Five Risks

On your journey to retirement, you'll likely face many risks that have the potential to throw you off course. Following are five common challenges retirement investors face. Take some time now to review and understand them before your journey takes an unplanned detour.

## 1. Traveling aimlessly

Setting out on an adventure without a definitive destination can be exciting, but probably not when it comes to saving for retirement. As you begin your retirement strategy, one of the first steps you'll need to take is identifying a goal. While some people prefer to establish one big lump-sum accumulation amount — for example, $1 million or more — others find that type of number daunting. They might focus on how much their savings will need to generate each month during retirement — say, the equivalent of $5,000 in today's dollars, for example. ("In today's dollars" refers to the fact that inflation will likely increase your future income needs. These examples are for illustrative purposes only. They are not meant as investment advice.)

Regardless of the approach you follow, setting a goal may help you better focus your investment strategy. In order to set a realistic target, you'll need to consider a number of factors — your desired lifestyle, pre-retirement income, health, Social Security benefits, any traditional pension benefits you or your spouse may be entitled to, and others. Examining your personal situation both now and in the future can help you determine how much you may need to accumulate.

## 2. Investing too conservatively...

Another key to determining how much you may need to save on a regular basis is targeting an appropriate rate of return, or how much your contribution dollars may earn on an ongoing basis. Afraid of losing money, some retirement investors choose only the most conservative investments, hoping to preserve their hard-earned assets. However, investing too conservatively can be risky, too. If your investment dollars do not earn enough, you may end up with a far different retirement lifestyle than you had originally planned.

## 3. ...Or too aggressively

On the other hand, retirement investors striving for the highest possible returns might select investments that are too risky for their overall situations. Although you might consider investing at least some of your retirement portfolio in more aggressive investments to potentially outpace inflation, the amount you invest in such higher-risk vehicles should be based on a number of factors. Appropriate investments for your retirement savings mix are those that take into consideration your total savings goal, your time horizon (or how much time you have until retirement), and your ability to withstand changes in your account's value. Would you be able to sleep at night if your portfolio lost 10%, 15%, even 20% of its overall value over a short time period? These are the types of scenarios you must consider when choosing an investment mix.

## 4. Giving in to temptation

On the road to retirement, you will likely face many financial challenges as well — the unplanned need for a new car, an unexpected home repair, an unforeseen medical expense are just some examples.

During these trying times, your retirement savings may loom as a potential source of emergency funding. But think twice before tapping your retirement savings assets, particularly if your money is in an employer-sponsored retirement plan or an IRA. Consider that:

- Any dollars you remove from your portfolio will no longer be working for your future
- You may have to pay regular income taxes on distribution amounts that represent tax-deferred investment dollars and earnings
- If you're under age 59½, you may have to pay an additional penalty tax of 10% to 25% (depending on the type of plan and other factors; some exceptions apply)

For these reasons, it's best to carefully consider all of your options before using money earmarked for retirement.

## 5. Prioritizing college saving over retirement

Many well-meaning parents may feel that saving for their children's college education should be a higher priority than saving for their own retirement. "We can continue working, if needed," or "our home will fund our retirement," they may think. However, these can be very risky trains of thought. While no parent wants his or her children to take on a heavy debt burden to pay for education, loans are a common and realistic college-funding option — not so for retirement. If saving for both college and retirement seems impossible, consider speaking with a financial professional who can help you explore the variety of tools and options.

# ABLE Accounts After Tax Reform

***Recent tax reform legislation may have increased the tax benefits of an ABLE account for some by allowing (1) the designated beneficiary to make additional annual contributions from compensation, (2) certain rollovers to an ABLE account from a 529 plan, and (3) the saver's credit for contributions to an ABLE account by the designated beneficiary. These changes are generally effective for 2018 to 2025.***

*****Before investing in an ABLE plan, consider whether your state offers an ABLE plan that provides residents with favorable state tax benefits. ABLE accounts may be protected from creditors, if you invest in your own state's program, depending on the state. Consult a tax professional for more information.***

Recent federal tax reform legislation has added several favorable new tax provisions for ABLE (Achieving a Better Life Experience) accounts.* ABLE accounts are tax-advantaged savings accounts for individuals with disabilities that are typically used to cover qualified disability expenses. Generally, an ABLE account is disregarded for purposes of determining eligibility for, and the amount of, any assistance or benefit provided under certain means-tested federal programs.

## ABLE account basics

A disabled person (or the disabled individual's parent or guardian, or an agent with a power of attorney) can create an ABLE account under a state's ABLE program.** Generally, only one ABLE account is permitted per disabled person at a time, and the person with the account must have become disabled prior to age 26.

Distributions from an ABLE account can be made only to the designated beneficiary. The ABLE account and distributions for the designated beneficiary's qualified disability expenses are generally not subject to federal income tax, and some states may offer tax incentives to residents.**

## Contributions

Contributions to an ABLE account are subject to an annual and a cumulative limit. The annual limit for total contributions by all contributors combined is equal to the federal annual gift tax exclusion amount ($15,000 in 2018), increased for certain contributions from compensation of individuals with disabilities in 2018 to 2025. The cumulative limit is equal to the state's maximum aggregate limit for all Section 529 qualified tuition program accounts for the beneficiary. A contribution cannot be made to the extent that it would cause the account balance to exceed that limit.

For 2018 to 2025, the annual limit for contributions to an ABLE account can be increased above the annual gift tax exclusion amount if the designated beneficiary makes certain contributions from compensation to the ABLE account. The increased contribution limit for contributions by the designated beneficiary cannot exceed the lesser of (a) the compensation includable in the designated beneficiary's gross income for the year, or (b) the poverty line for a one-person household (as determined for the previous year). For 2018, the poverty line limit is generally $12,140. For this purpose, the designated beneficiary must be an employee for whom no contribution is made for the year to a defined contribution plan, a 403(b) annuity contract, or certain eligible deferred compensation plans of a government unit or tax-exempt organization.

## Rollover to ABLE account

From December 23, 2017 to December 31, 2025, certain distributions from a 529 plan can be rolled over to an ABLE account in a nontaxable event. The ABLE account beneficiary must be the designated beneficiary of the 529 plan, or a member of the family of the designated beneficiary of the 529 plan. The rollover is limited to the amount that, when added to all other contributions made to the ABLE account for the taxable year, would not exceed the annual gift tax exclusion limit for contributions to the ABLE account.

Previously, the only rollover permitted to an ABLE account was a rollover from an ABLE account of the same beneficiary or an eligible brother or sister. Only one rollover is permitted to any ABLE account of the same designated beneficiary within a 12-month period. Direct program-to-program transfers may be allowed to change the designated beneficiary or the state program.

## Saver's credit

For many years, the saver's tax credit has been available to certain individuals making eligible contributions to IRAs or employer-sponsored retirement plans. For 2018 to 2025, the saver's credit may also be available to ABLE account beneficiaries who contribute to their own accounts. The amount of the credit is a percentage of the individual's aggregate contributions for the year, up to $2,000. The credit percentage depends on the individual's tax filing status and adjusted gross income. The credit is not available if the individual has not attained age 18 for the year, is a dependent of another taxpayer, or is a full-time student.

**Participating in an ABLE account may involve investment risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. Carefully consider a portfolio's risk, investment objectives, charges, and expenses before investing. Read the program's official disclosure statement and applicable prospectuses — which contain this and other information about the investment options, underlying investments, and investment company.*

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Bartholomew & Company has been recognized as a 2018 Best Places to Work for Financial Advisers as announced by *InvestmentNews* today. Bartholomew & Company was chosen as one of this year's top-50 based on employer and employee surveys delving into everything from company culture, benefits, career paths and more. *InvestmentNews* partnered with Best Companies Group, an independent research firm specializing in identifying great places to work, to compile the inaugural survey and recognition program. The list is a first of its kind for the financial advice industry. To learn more about the *InvestmentNews* 2018 50 Best Places to Work for Financial Advisers, please go to www.investmentnews.com/BestPlacestoWork .

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## When should I submit college financial aid forms?

For the 2019-2020 school year, the federal government's financial aid form, the FAFSA, can be filed as early as October 1, 2018. It relies on current asset information and two-year-old income information from your 2017 tax return, which means you'll have the income data you need when you sit down to complete the form. This is a relatively new process. A few years ago, parents had to wait until after January 1 to file the FAFSA and use tax data for the year that had just ended, which forced them to scramble to complete their tax return in order to complete the FAFSA.

If you have a new or returning college student, it's a good idea to file the FAFSA as early as possible in the fall because some aid programs operate on a first-come, first-served basis. The deadline for filing the FAFSA is typically March or April and will vary by college. But don't wait until then. It's a good idea to submit any college aid forms as early as possible, too.

The FAFSA is a prerequisite for federal student loans, grants, and work-study. In addition, colleges typically require the FAFSA before distributing their own need-based aid and, in some cases, merit-based aid. Even in cases when you don't expect your child to qualify for need-based aid, there may be another reason to submit the FAFSA. All students attending college at least half-time are eligible for federal unsubsidized Direct Loans regardless of financial need. ("Unsubsidized" means the borrower, rather than the government, pays the interest that accrues during school, the grace period after graduation, and any deferment periods.) So if you want your child to have some "skin in the game" with a small loan, you'll need to file the FAFSA. (Loan amounts are capped each year: $5,500 freshman year, $6,500 sophomore year, and $7,500 junior and senior years.) What if you file the FAFSA but then change your mind about taking out a loan? Don't worry, you aren't locked in. Your child can always decline the loan after it's offered.

The FAFSA is available online at fafsa.ed.gov. In order to file it, you'll need to create an FSA ID if you haven't done so already (follow the online instructions). You'll need to resubmit the FAFSA each year, but fortunately you can use the built-in IRS Data Retrieval Tool to have your tax data electronically imported, which saves time and minimizes errors.

## What's so great about a college net price calculator?

If you're saving for a child's college education, at some point you'll want to familiarize yourself with a college net price calculator, which is an invaluable tool for estimating financial aid and measuring a college's affordability. Available on every college website, a net price calculator gives families an estimate of how much grant aid a student might expect at a particular college based on his or her personal financial and academic profile and the college's specific criteria for awarding grant aid. A college's sticker price minus grant aid equals a family's "net" price, hence the name.

The idea behind a net price calculator is to give families who are researching colleges a more accurate picture of what their out-of-pocket costs are likely to be, rather than having them rely on a college's published sticker price. The figures quoted by a net price calculator aren't guarantees of grant aid, but the estimates are meant to be close, so running the numbers is an excellent way for parents to see what their net price might be at different colleges.

Keep in mind that each college has a different sticker price and formula for determining how much grant aid it distributes, so every calculator result will be different. For example, after entering identical financial and family information on three separate net price calculators, you might find that College A has a net price of $25,000 per year, College B has a net price of $30,000, and College C is $40,000.

A net price calculator typically asks for the following information: parent income and assets, student income and assets, and the number of children in the family, including how many will be in college at the same time. (Generally, the more children in college at the same time, the more grant aid.) It may also ask more detailed questions, such as a student's class rank and/or test scores, how much money parents have saved in employer retirement plans in the most recent tax year, current home equity, and how much parents expect to pay in health-care costs in the coming year.

A net price calculator typically takes about 10-15 minutes to complete and is time well spent. Typing "net price calculator" in the search bar of a college's website should direct you to it.