Ullmann Brown Wealth Advisors

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President's Letter

Dear Friends,

September 15th marked a sad anniversary. Ten years ago, Lehman Brothers declared bankruptcy, sparking a financial crisis that engulfed the global economy. Few would have predicted that what would ensue from those dark days was the longest up market in history.

Lehman's failure could easily be described as a "systemic event." That's financial jargon for an event that triggers severe financial instability and sends shockwaves through the economy.

Economically, we've recovered from the downturn. Unemployment is low, and Gross Domestic Output (GDP) is above pre-crisis levels. Major U.S. market indexes have topped pre-recession highs, but the crisis left an indelible mark on investors. For some, the scars remain.

While today's bull market pushes higher, some investors fear a repeat. You see it every time the market experiences a correction, or a decline of at least 10%. One day, like all human memories, the memory of this crisis will recede.

Can it happen again? Of course. It's the when and how that is essentially unknowable.

In the past crisis, borrowers and lenders acted recklessly. Whether you blame it on the banks or blame it on borrowers, too many people jumped into or were placed into loans they couldn't afford. Those loans were then securitized (or made into investment vehicles) and the system built until one day, there were no investors left to buy all of these securities. Rules and regulations and common sense were minimized.

Today, banks are much better capitalized than in 2007. The major banks have a much bigger cushion to absorb loan losses. And underwriting standards for home loans are more realistic.

During the Fed's quarterly press conference, Fed Chief Jerome Powell was asked about financial conditions.

Powell, said, "The single biggest thing I think that we learned was the importance of maintaining the stability of the financial system." It's something "that was missing" back then.

"We've put in place many, many initiatives to strengthen the financial system through higher capital, and better regulation, more transparency, central clearing, margins on unclear derivatives, all kinds of things like that, which are meant to strengthen the financial system," Powell said.

These measures won't prevent another recession, and systemic risks haven't completely abated, but the financial system is in a much better position to withstand a shock than it was in 2008.

It's not about timing the market or trying to anticipate the next downturn—an IMPOSSIBLE TASK to do consistently. It's about having a plan—having the plan drive the investments, having diversification and a process to rebalance between more volatile assets (such as stocks) and less volatile assets (such as bonds) and having a Wealth Management team to help control any bad behavior.

Headlines will often create short-term volatility. We saw that earlier this year, and we've seen it at various times in recent years. Staying disciplined is an important part of your wealth management plan.

Until we see you again, please enjoy this month's newsletter.

Sincerely,

Glenn M. Ullmann

Save the Date!

Thursday, November 1, 5:00 p.m.

Challenging Life's Limits: How longevity science is redefining lifespan expectations.

Dr. Dan Carlin, a recognized leader in the field of telemedicine and the use of digital technologies to provide better healthcare, will be our guest speaker at this special event.

For more information, please call our office.

Friday, November 16, 9:00 a.m. – 3:00 p.m.

Help Support Ozzie's Closet

Do you have professional clothing you no longer wear?

If so, please bring gently used clothing to our office. We will be donating it to Ozzie's Closet at the University of North Florida. Ozzie's Closet is an initiative to give students participating in job interviews, career fairs and entering the work force the opportunity to look their best by providing them with professional attire.

Fall 2018

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Down the Donut Hole:
The Medicare Coverage Gap

Reminder:

Medicare Open Enrollment runs from October 15 through December 7.

The Open Enrollment period allows people with Medicare to switch Medicare health and prescription drug plans to better suit their 2019 needs.

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.

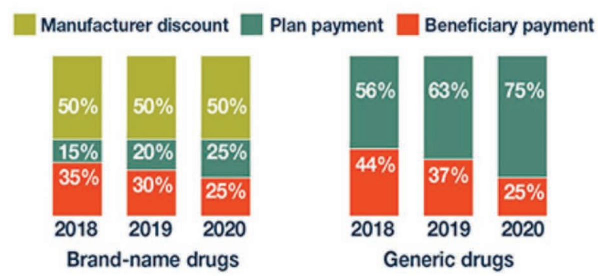
Catastrophic coverage. Once you have reached the out-of-pocket limit, you receive catastrophic coverage with much lower payments. In 2018, you would pay the greater of 5% of drug costs or $3.35/$8.35 for each generic and brand-name drug, respectively.

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.

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

When Should I Submit College Financial Aid Forms?

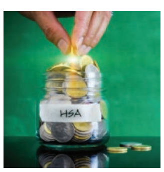
For the 2019-2020 school year, the federal government's financial aid form, the FAFSA, can be filed as early as October 1, 2018. It relies on current asset information and two-year-old income information from your 2017 tax return, which means you'll have the income data you need when you sit down to 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.

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 2018, you can contribute up to $3,450 for individual coverage and $6,900 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.

UBWA Reads

Sapiens: A Brief History of Humankind
by Yuval Noah Harari

Bad Blood: Secrets and Lies in a Silicon Valley Startup
by John Carreyrou

Little Fires Everywhere
by Christine Ng

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The Economic Journey of Your Morning Coffee

This morning 100 million Americans began their day in the same way—drinking their first cup of coffee.[1] Few, if any, took a moment during this morning ritual to contemplate or marvel the complex journey that brought their coffee from farm to kitchen table.

Coffee is one of the U.S.'s largest import foods.[2] It wields an economic impact that starts with farmers from Brazil to Vietnam and ends with the barista at your local coffeehouse, involving hundreds of truckers, shippers, roasters and retail workers in between.

More than 36 hands touch every coffee bean in the journey from bush to cup. And the original bean farmer can expect between 12 and 25 cents for every pound of gourmet coffee sold.[3]

Like many agricultural enterprises, coffee is grown on large plantations and small farms alike. Harvests are purchased by coffee mills located proximate to coffee growing regions, either directly from the plantation and farm cooperative, or via a trader who buys from the farmer in hopes of re-selling at a higher price.

The mills take these "cherries"—so called because the beans are red—and brings them through a milling process that dries them and removes their husks to reveal the inner green bean.

The green beans are brought into the U.S. by importers and sold to roasters and major coffee brands whose roasting facilities are typically located in coastal cities with seaports that can receive the coffee shipments.

Once roasted, coffee will be ground (or left as whole beans), packaged and shipped to distribution centers around the country for eventual delivery to retail outlets.

Coffee's journey to your table may travel a different path given the rise of specialty roasters and a growing connection between coffee retailers and farmers that removes many of these middlemen.

1 StatisticBrain.com, September 1, 2016
2 USDA.gov, May 5, 2017
3 GroundworkCoffee, 2017

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