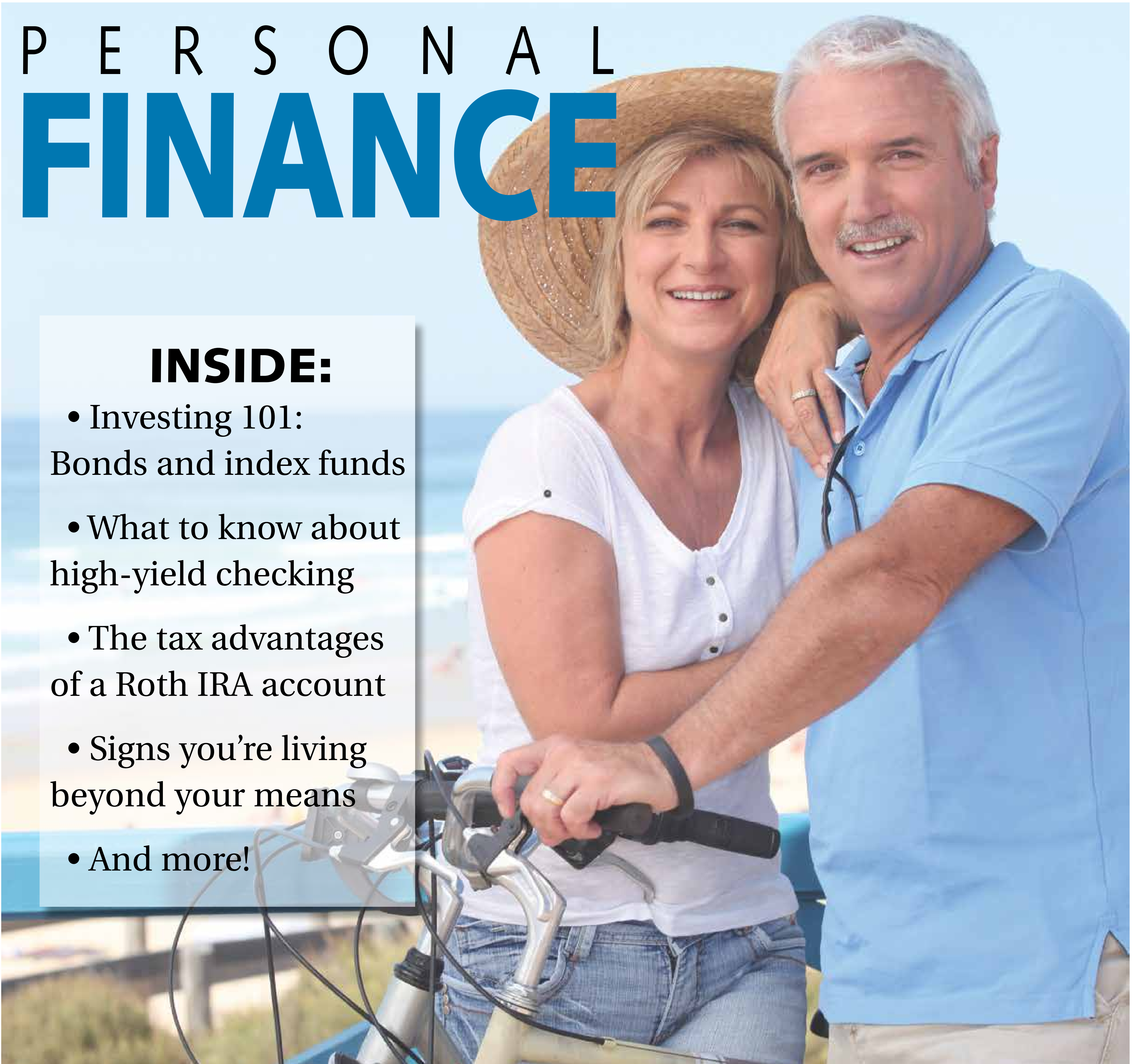

PHOTO: PHOVOIR / YAYMICRO.COM

Manage Health Expense

HEALTH SAVINGS ACCOUNTS OFFER SOME ADVANTAGES

A health savings account (HSA) can be a great resource for people who are covered by a high deductible health plan.

It allows them to save money from every paycheck towards paying for medical expenses and can help patients avoid cleaning out their savings to pay for medical bills.

As high deductible plans increase in popularity, employer sponsored policies have turned to this resource as a measure to help patients limit the overall cost of out-of-pocket expenses for health care.

EVERYONE LOVES FEWER TAXES

Under normal circumstances, your medical expenses must exceed 7.5% of your gross income to receive a tax break according to the IRS. However, a health savings account allows you to put aside money, pre-tax, on a weekly basis toward the costs of qualified medical expenses.

Right now the IRS allows an individual to contribute up to $6,450 annually to their HSA for family coverage and deduct the full contribution from their reported income.

If the policy just covers yourself, an individual can contribute up to $3,250 in 2013.

This effectively lets you deduct all of your medical expenses as long as they don't exceed the contribution threshold.

IT WON'T DISAPPEAR

One of the most important benefits to an HSA is that the money you put in there is not liquidated at the end of the year like a flexible spending account.

Some insurance companies offer the flexible spending account as an alternative buffer against healthcare costs and although it has the same tax advantages as an HSA, the money you don't use disappears at the end of the year.

This is frustrating because you may end up losing more money that the aforementioned tax break will save you. Thankfully an HSA does not suffer from this problem and you can accumulate money over several years that will remain in case of a medical emergency.

PHOTO: FEVERPITCHED / YAYMICRO.COM

A health savings account offers tax benefits that help people with high-deductible insurance plans.

YOUR HSA WILL FOLLOW YOU

If you have an employer sponsored health savings account, you need not feel bound to work for that company in order to take advantage of the account's benefits. If you leave for some reason, your HSA will go with you along with the benefits.

If your new health plan also qualifies as a high deductible health plan, you will be able to continue contributing to it. Even if it doesn't, you will still be able to use the funds to pay for medical expenses, tax free.

If you have a high deductible health plan it makes a lot of sense to contribute to an HSA. With a high deductible it's a virtual certainty that you're going to be responsible for some out of pocket costs throughout the year and an HSA can protect your assets.

Some employers even contribute funds on a monthly basis for you, so just having the account will yield free money to save for when you need it.

If you qualify for this type of account it's an absolute necessity to take advantage of it.

Grow Your Savings

WHAT YOU NEED TO KNOW ABOUT HIGH-YIELD ACCOUNTS

If you need to keep your money safe and still have access to it when you need it, a high-yield checking or money market account can be a good vehicle for accomplishing both goals.

High-yield checking and money market accounts often pay more interest than the national average, but to get those rates you might have to meet a number of different requirements.

DIRECT DEPOSIT

In many cases you will be required to establish a monthly direct deposit. If you fail to set up a direct deposit within the specified time of opening the account, you might be subject to a monthly maintenance fee.

You could also forfeit the higher rate of interest and earn a much lower rate, or earn no interest at all.

DEBIT CARD TRANSACTIONS

Many high-yield checking accounts require account holders to make a minimum number of debit card transactions per month. The number of required debit card transactions can be quite significant, often 10 or more transactions per month.

Before you sign up for a high-yield account, you should first look at your current spending patterns and make sure you can meet those debit card transaction requirements.

MINIMUM BALANCE

High-yield checking and money market accounts often come with minimum balance requirements, and those minimum balances can be higher than those on traditional bank accounts.

In addition, some high-yield checking accounts limit the amount of money you can earn the highest rate of interest on. For instance, a high-yield checking account might pay the highest rate of interest on the first $25,000, but a much lower rate of interest on balances above that amount.

TIERED INTEREST

You need to be aware that if you fail to abide by any of the requirements set forth in the account agreement your interest rate could drop sharply, or disappear altogether.

For instance, your checking or money market account might promise a great interest rate if you meet all of the monthly requirements, but only pay you a tiny amount if you fail to meet all of those requirements for the month.

It is important to look closely at the fine print and make sure you understand all the details before you sign up for any high-yield checking or money market account.

PHOTO: BILDERBOX / YAYMICRO.COM

What are Bonds?

BUYING GOVERNMENT OR CORPORATE DEBT IS ONE OPTION FOR INVESTING YOUR MONEY

Unlike stocks, which give their owners a share of the company that issues them, bonds are debts owed by the issuer to the bondholder.

When you buy a bond, you are entitled to be repaid but only after the date on which the bond matures. Prior to that date, you receive fixed interest that may be paid monthly, annually or semiannually.

Depending on who issues them, bonds may take anywhere from 90 days to 30 years to mature. The interest rate is determined by the date of maturity as well as the credit rating of the issuer.

Bonds may be issued by companies or governments and are used to fund building projects or to meet expenses. A few of the most common bonds are municipal bonds, U.S. treasury bonds and U.S. savings bonds.

U.S. BONDS

Unlike municipal bonds, which are issued by local governments, U.S. treasury bonds and U.S. savings bonds are issued by the treasury department.

The main difference between the two is that while treasury bonds can be traded, savings bonds cannot. There is also a limit to how many savings bonds one individual can purchase.

JUNK BONDS

Unlike investment-grade bonds, which are generally considered to be low risk, junk bonds are not usually safe investments.

This is because they're issued by companies that have poor credit ratings. These companies want to raise capital without having to pay a high interest rate, and issuing junk bonds solves that problem.

As with any type of investment, you should do your homework before buying bonds. While bonds can be a good long-term investment, those who want the potential for greater returns should consider buying stocks instead.

PHOTO: DRAGON_FANG / YAYMICRO.COM

What is an Index Fund?

When you invest in the stock market, you have a number of choices available. You could invest in individual stocks, although that option can be quite risky for individual investors. You could invest in managed mutual funds, but you could face high costs, and in some cases substandard performance as well.

Your third option is to invest in an index fund. With an index fund, you do not try to beat the market or time the appearance of the next bull or bear market.

Instead, an index fund simply buys and holds all of the stocks in a given index. That strategy makes the index fund perform in line with the overall stock market, going up when the market goes up and down when it falls.

While index funds are not very exciting, they can be a smart way to invest. One of the most important, yet often overlooked, advantages of an index fund is that these funds tend to have very low expenses.

For instance, one large index mutual fund charges an expense ratio of just 0.18 percent. That means that an investor with $10,000 in the market would pay just $18 in expenses over the course of a year.

When you compare that to the 1-2 percent expense ratios common on many managed funds, it is easy to see how an index fund can save you money.

PHOTO: LEUNGCHOPAN / YAYMICRO.COM

An index fund can offer broad, diversified exposure to the stock market without buying individual stocks. Many index funds offer low costs.

Index funds also tend to be very tax efficient. Saving money on your taxes is very important, since every dollar you save in taxes is one more dollar you get to invest for the long term. Over many years the value of that extra dollar can add up to hundreds of dollars.

If you think an index fund is right for you, just contact several mutual fund companies or local investment advisors and ask for a prospectus.

Although the costs associated with index funds are typically quite low, they do vary from firm to firm. Weighing both the costs of a fund and its long-term track record can help you keep more of your money.

Supplement Your Pension

NEED MORE RETIREMENT INCOME? LOOK AT THESE CHOICES

Pensions for retirement aren't as common these days. People change jobs frequently during their lifetime and often don't amass a sufficient pension for full retirement.

Many individuals don't get a pension at all. Whether you're expecting a sizable pension, or something much smaller, supplementing it with other retirement investment accounts will give you extra cash to support your lifestyle during retirement years.

PHOTO: PHOVOIR / YAYMICRO.COM

For an active, fulfilling retirement, many people choose to supplement their pension income with investments in a 401K or IRA plan.

EMPLOYER OPTIONS

What kind of retirement accounts are available through your employer? Many employers offer a 401K, or a 403B if you work for the government.

When you set up a 401K, you can contribute money tax-free. When you withdraw it during retirement, you pay income taxes on the initial contributions and earnings. The money that would have gone to taxes can stay in your account for many years until you retire earning more money through capital gains and dividends.

Some employers will match your contributions up to a certain percent. For example, they might match 50 percent of your contributions if you contribute up to 5 percent of your income or match 100 percent if you contribute 6-10 percent of your income. It is meant as an incentive to encourage you to invest for retirement. Don't miss any opportunity for free money.

If you get an employer match through your company, it's usually a good idea to contribute the maximum amount to your 401K. After that, you can set up an IRA or Individual Retirement Account.

IRAs

There are two types of IRAs, the traditional IRA and the Roth IRA.

A traditional IRA is very similar to a 401K with a few differences. You contribute you pre-tax dollars now and pay taxes on everything when you withdraw money during retirement. However, there is no opportunity for an employer match. One benefit is that you can invest it in any mutual fund instead of using the company-chosen fund.

A Roth IRA is a bit different. You don't invest pre-tax dollars. Instead, you pay taxes on all your contributions now, but when you withdraw it during retirement, you don't have to pay any taxes, not even on the earnings. You can earn a large return and not pay any taxes on it as long as it stays in your account.

Another benefit is that you can withdraw your contributions before retirement without penalty if you need to because you already paid taxes on it.

Living Beyond Your Means?

SOME SIGNS THAT YOU'RE SPENDING MORE THAN YOU'RE MAKING

With an avalanche of marketing messages hitting us every day, it's no surprise that many people have acquired an appetite for the newest and biggest items offered by retailers. That's not a problem in itself.

Unfortunately, many people also carry an obsessive, sometimes financially destructive desire to have the same possessions that their friends, relatives and peers own. These following four indicators are all red flags that should make you stop and think before buying those big-ticket items.

Obtaining new credit for the purpose of purchasing more: If you find yourself taking out personal loans or responding to multiple pre-approved credit offers, it may be time to stop shopping for desirables.

Trinkets and consumer goods will always be there for you to buy. Saving time and cash for later instead of splurging now will save you money in the long term that would otherwise go to finance charges and credit card interest.

That doesn't mean putting off purchases forever. By getting better financial footing right now, you'll be able to comfortably spend more in the future.

Using credit cards to cover monthly expenses: Frequently, there are incentives like airline miles and bonus points for paying with plastic. However, if you're drawing on credit cards instead of your checkbook to pay your utility bills, the real message in this action is to curb unnecessary spending.

The habit of paying with credit will give you the false belief that you have more spending cash than you actually do. You'll be more likely to use this money toward purchasing unnecessary items instead of allocating it for your bills.

Not paying credit card balances in full: Credit card companies permit those low minimum payments so they can collect more interest on higher outstanding balances.

Depending on your interest rate, you can be charged anywhere from a penny to twenty-nine cents on each dollar in that remaining balance.

Limit splurging on extras the instant you find yourself struggling to pay off your credit cards each month.

Borrowing from retirement: Tapping into funds for the future to finance your lifestyle today should never happen. Finding yourself in this situation is a clear indicator that you're buying too much and not saving enough for tomorrow.

If you're thinking about borrowing from your 401k, consider cutting variable costs related to entertainment and shopping before doing so.

In our society today, "bigger is better" is a common phrase used to describe materialism. There's nothing wrong with the desire to live large, but living with a larger savings account is much better than owing large credit balances to pursue a possession-fueled happiness.

And if you save more money today, you'll really be able to live it up in the future.

PHOTO: STOCKYIMAGES / YAYMICRO.COM

One Option for a Tax Break

A Roth IRA can be an excellent retirement savings vehicle, particularly for younger workers and for those who feel that tax rates will be higher in the future than they are now.

With a traditional IRA, workers get an up-front tax break, and the money is only taxed when it is withdrawn in retirement. The Roth IRA turns this concept on its head, eliminating the up-front tax break in favor of tax-free withdrawals in retirement.

This allows eligible taxpayers to put aside money for retirement, have it grow tax-deferred, and take the money out without paying taxes on those withdrawals.

EARNED INCOME ONLY

The only income that can be used to fund a Roth IRA is earned income, such as income from wages. Income from other sources, including capital gains and interest payments, cannot be used to fund the Roth IRA. That means a worker needs to have earned income equal to or greater than the amount contributed to the Roth IRA.

UNDERSTAND THE CONTRIBUTION LIMITS

The contribution limits for the Roth IRA change from time to time, so it is best to consult with an accountant or tax expert before you make your annual contribution.

For the year 2013, eligible workers can contribute up to $5,500 to their Roth IRA plans. Workers 50 years of age and older can contribute an extra $1,000 under the catch-up provision of the plan.

For married couples, each individual can contribute up to their maximum amount into separate IRA accounts.

PHOTO: CTECONSULTING / YAYMICRO.COM

ELIGIBILITY FOR CONTINUING

One difference between a traditional IRA and a Roth IRA is that workers can continue to contribute to a Roth plan after age 70 1/2, something they cannot do with a traditional IRA plan. That can be an important benefit for those who plan to work in retirement and need a way to put money aside for the future with the prospect of tax free withdrawals down the line.

Understanding the rules associated with the Roth IRA will help you make the most of this exciting and unique retirement savings vehicle. If you are convinced that tax rates have nowhere to go but up, getting in on a Roth IRA now could provide the protection you need well into the future.