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FINANCIAL Planning Strategies

A Financial Planning Update

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Paying for College with Help from Uncle Sam

When thinking about funding sources for your children's college education, you may assume your family earns too much to qualify for Federal grants, loans, and work-study job assistance. However, families with higher incomes are frequently eligible to receive some form of financial aid from the Federal government.

The U.S. Department of Education (DOE) uses a formula for calculating financial aid eligibility that considers a range of factors in addition to income and assets, including family size and other financial obligations. When assessing a family's ability to pay for college, the Federal government recognizes only a small percentage of parents' assets as potential contributions, while other types of assets, including home equity and savings in IRAs and 401(k) plans, do not factor into the qualification formula.

Filing the FAFSA

Even if you expect to cover your child's college costs through sources other than Federal aid, it is usually worthwhile, if not required for you to complete the Free Application for Federal Student Aid (FAFSA) as the initial part of the process. In addition to determining your family's eligibility for Federal assistance, the FAFSA is the primary qualifying form used by many college, state, local, and private financial assistance programs.

The first step in applying for financial aid is filling out the FAFSA, which is distributed and processed by Federal Student Aid, an office of the DOE. Hard copies of the FAFSA are often available at high school guidance offices, libraries, or post offices, or by calling the Federal Student Aid office. The simplest way to complete the FAFSA is by applying online at www.fafsa.ed.gov. Filling out the form online will alert you to mistakes or omissions; it can also expedite the processing time by one to two weeks.

The documents you will need as a parent to complete the FAFSA include your Federal income tax return and W-2 forms from the previous year, current bank statements, records of untaxed income, such as Social Security or veteran benefits, current business and investment mortgage information, and investment records. If you are divorced and are the child's custodial parent, only information about your own household's income and assets, including any child support and alimony, are required by the FAFSA. While some colleges look at the financial resources of the noncustodial parent in determining the student's need, the Federal government does not.

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Ten Tips for Creating an Effective Estate Plan

Whether your estate plan is simple or complicated, many details can undermine the effectiveness of your plan. But, there are also ways to ensure the effectiveness of your plan. Here are 10 steps to help remedy or avoid some common estate planning mistakes:

Consider using a will to transfer property to children instead of owning property jointly. Unlike a will, a transfer of an interest in your property is irrevocable, which may prevent you from changing the disposition if circumstances change before your death. Holding the title to your personal residence jointly can result in partial loss of the capital gain exclusion if it is sold before your death. Therefore, it's often recommended that you use your will to make any property transfers that will occur upon your death.

Think before gifting property to your children. Parents often regret having made outright gifts to a child if the child subsequently divorces, and the ex-son- or daughter-in-law is awarded an interest in the gifted property by a court. Or, under other circumstances, the property may be taken pursuant to a legal judgment against the child. These problems can be avoided through proper use of trusts or a business entity, such as an LLC.

Ensure your assets pass according to your wishes upon your death. Many types of assets can pass to your heirs or others based upon beneficiary designations (e.g., life insurance, IRAs, brokerage accounts). The provisions of your will cannot change a beneficiary designation. Remember to account for items you've already designated when you create your will. Review your will, as well as all other beneficiary designations, when formulating your estate plan.

Know your estate's true value for Federal estate tax purposes. Many people are unaware of the fact that life insurance proceeds are included in their taxable estates if they own the policy. This could increase their total estate value to more than the amount sheltered from estate tax by the estate tax exemption ($11.4 million in 2019).

Check recent changes in the law regarding state death taxes. Many states have "decoupled" their death tax from the Federal estate tax, which means your estate could be subject to death tax in a state, even if no Federal estate tax is due. However, with proper planning, this may be avoided. The laws of each state where you own property should be carefully reviewed to determine potential state death taxes and how to reduce them.

Review the portability provision of the estate tax exemption. Estate tax exemption may be transferred between spouses, so that if one spouse dies and does not use the full exemption amount, the remainder can be used by the surviving husband or wife, if he or she also dies. For estate planning purposes, this means that husbands and wives do not have to split assets between them, or be concerned about who holds the title on various assets. Yet, this does not eliminate the need for planning.

Maximize income tax basis "step-up" benefits at death. Consider holding low-basis/high-value assets to be given at your death,

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since the basis for capital gain computation purposes will be increased to fair market value at death. If the asset is given away, the basis remains at the property's original cost.

Specify your desired funeral arrangements. A pre-arranged funeral may relieve family members from additional stress upon your death. You can also prepare for the costs of a funeral.

Plan for a potential disability. Consider establishing advance directives, powers of attorney, and designated trustees, since costly and time-consuming court proceedings may be required in order to appoint a guardian or conservator to act on your behalf if you become incapacitated.

Review and update your estate plan regularly. Changes in the law and in your personal situation make it important to periodically review and update your estate plan so that it continues to reflect your wishes.

Early and thorough estate planning can help you reach your financial goals and help ensure that your wishes will ultimately be implemented. Be sure to consult with your tax, legal, and financial professionals. $

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The Student Aid Report

When filling out the FAFSA, you may request that your financial information be sent to up to six colleges. If your child intends to start college next fall, it is advisable to file the FAFSA as soon as possible after October 1, because deadlines for submitting FAFSA information can be early in the year for some colleges and state awards programs.

Within a few days to a month after it is filed, you should receive by postal mail or e-mail a form known as the Student Aid Report (SAR). On the SAR, you will find the Expected Family Contribution (EFC), an estimate of the amount of your family contribution toward the student's college expenses for the year. The colleges you listed on the FAFSA will use this figure as a basis for determining the amount and type of any financial aid you will receive.

If financial need is determined, the schools that admit your child as a student will prepare a financial aid package covering all or part of the difference between your family's EFC and the cost of the college. Depending on your family's income and the resources of the institution, colleges may offer more or less aid than the difference between the EFC and the cost of attendance.

The type of Federal aid your child receives is largely based on family income. Lower-income students may be awarded grants that do not need to be repaid, such as the Pell Grant or the Federal Supplemental Educational Opportunity Grant (FSEOG), and additional assistance may be available in the form of a Federal work-study job.

Besides these awards, students may be eligible for subsidized Federal loans, such as the Perkins Loan or the Stafford Loan. These loans must be repaid by the student, but the government pays the interest while the student is in school and during grace and deferment periods.

In addition, your family may be offered an unsubsidized Stafford Loan, which must be repaid by the student, or a PLUS Loan, which is in the name of the parents. Interest accrues on these unsubsidized loans from the time the funds are disbursed, though payments may be deferred until after graduation.

When loans offered by Federal programs prove insufficient to cover the actual costs of your child's education, you can apply for a private education loan. However, these loans tend to have higher interest rates than government loans. To learn more, visit www.studentaid.ed.gov or www.fafsa.ed.gov. $

Living Value: The Other Side of Life Insurance

Many of us think of **life insurance** as a means of providing funds to cover financial obligations, such as a mortgage, or to replace income in the event of the death of a family breadwinner. In general, the **death benefit** under a life insurance policy is often the most-well-understood feature.

However, not all policies are the same. A **permanent life insurance** policy contains a cash value feature that allows cash to accumulate, which may be used to help supplement important financial goals, such as funding a child's college education. So, permanent life insurance has a "living value" in addition to the traditional death benefit feature. Let's take a closer look.

Cash Value

The cash value in this type of life insurance policy accumulates on a tax-deferred basis in the same way that money does in an Individual Retirement Account (IRA). Because of this tax-deferred accumulation, there may be some income taxes due upon withdrawal. But, you are usually only taxed on amounts that exceed the *total* amount of premium payments you have made over the course of the policy.

One of the key benefits of permanent life insurance is that you can access the accumulated cash values through policy loans. Typically, the loan interest rate is stated in the policy and is comparable to traditional lending rates.

Another key feature of a permanent life insurance policy is that, unlike a traditional IRA or another qualified plan, you may make premium payments after age 70½, and there are no rules that stipulate required withdrawals of cash values by age 70½. This feature may provide an opportunity to continue making premium payments while receiving the benefits of tax-deferred accumulation.

With a life insurance policy, there are few rules that limit the amount of premium payments. Therefore, the higher the death benefit, the higher the premium will be. Some forms of permanent life insurance allow you to make premium payments in addition to what is specified under the terms of the policy. This may increase the cash value, but could lead to adverse tax consequences. Normally, policies are written to help avoid this possibility.

Dual Purpose Protection

Life insurance can serve many purposes. Through its death benefit, life insurance helps to protect and secure your family's future in the event of your death. At the same time, life insurance with a cash value may provide you with the opportunity to use the benefits of your policy during your lifetime.

Be sure to review your options with the help of a qualified insurance professional to see how permanent life insurance can help meet your overall financial objectives. $

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