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College Financial Aid: Do Your Homework

If one or more of your children will reach college age soon, you may be wondering how you will manage all the costs. For many families, a financial aid package provides some level of tuition support in the form of grants, scholarships, loans, or work-study placements. Aid is primarily based on the family's need. If it is determined that you're able to afford the cost of college, your quest for assistance may be challenging, but not impossible.

Forms must be filled out in order to assess whether you qualify for aid or not. You can get an idea of your eligibility, however, *before* applying for aid by using the following formula:

The Five Percent Test

Take 5% of the value of your total family **assets** (including home equity, savings, and investments) and add this figure to your **adjusted gross income (AGI)** from last year's tax return. Divide that result by the estimated, annual cost of college. If the result is six or less, you could qualify for financial aid. If the final number is higher, you may have a difficult time convincing financial aid officers of your need.

No matter what you expect your chances to be, it is still worthwhile to go through the application process. Many different factors enter into the final outcome. Public and private institutions alike offer varying amounts of aid, and you may be pleasantly surprised.

Funding Sources

If aid is denied by your chosen institution, there are other options. The Federal government, state government, banks, insurance companies, and religious, ethnic, civic, and fraternal organizations are a few alternative

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Tips to Help Stretch Your Paycheck

Most people would like to have more money in their bank accounts, while working less. Although this may seem like a never-ending dilemma, there may be a solution. Think about it. The best way to stretch the money you make without working more hours is to *avoid* excess spending in the first place. Some people call this a budget, but you could just as easily call it a spending plan.

Here are 10 tips to help stretch your hard-earned cash in today's challenging economic climate:

1) **Create a spending plan.** Many people resist the idea of a budget because they associate it with hardship and sacrifice. But instead, you can create a monthly "spending plan" for your fixed and discretionary expenses. By planning your spending, you may find that you spend money more wisely because you're consciously taking control.

2) **Pay yourself first.** Put savings at the top of your spending plan. If you wait until the end of the month to save any leftover cash, you may find yourself without a cushion when you need it most. Be sure to set a savings goal. For example, strive to save at least 10% of your income before spending the rest.

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College Financial Aid: Do Your Homework

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funding sources. The number of Federal aid programs available is encouraging. But keep in mind that potential future budget cuts may have an impact on some of the following popular programs, while others may remain unaffected:

Pell Grant—These grants are generally awarded to undergraduates based on need and family income. The size of the grant depends on program funding. The maximum award for the 2019–2020 award year is $6,195, and does not need to be repaid.

Federal Supplemental Educational Opportunity Grant (FSEOG)— Students who receive financial aid from the FSEOG are awarded in amounts from $100 up to $4,000. The award is determined by a student's financial situation and Expected Family Contribution (EFC). It is eligible for use at approximately 4,000 colleges and universities. The money given by the FSEOG is only available to students who are currently enrolled in school or have already been accepted for future enrollment. For those students currently finishing high school or other courses prior to college, it is important to apply for the FSEOG early due to the length of the application process, and because available funding may be granted before the completion of the process. Like the Pell Grant, the FSEOG is essentially "free money" that does not need to be repaid after student graduation.

Federal Perkins Loan— Under Federal law, the authority for schools to make new Perkins Loans ended on Sept. 30, 2017, and final disbursements were permitted through June 30, 2018. As a result, students can no longer receive Perkins Loans.

Federal Work-Study Program—This program provides an award in exchange for work. The typical school work schedule is about 12 to 15 hours per week (up to 40 hours per week during vacations). These jobs may be on or off campus, but they are generally with a government agency or non-profit organization if they are off campus (under some circumstances, a school may have arrangements with a private for-profit company). While the pay is generally modest, it is at least minimum wage. However, hours and compensation cannot exceed the Federal Work-Study award.

Direct Subsidized Loan— The U.S. Department of Education offers low-interest loans to eligible students to help cover the cost of college or career school. Students may be eligible to receive subsidized and unsubsidized loans based on their *financial need*.

An undergraduate student can borrow an annual amount of $3,500-$7,500, up to a lifetime limit of $23,000, depending on grade level. For loans first disbursed between July 1, 2018, and July 1, 2019, there is a 5.05% interest rate.

Unsubsidized Stafford Loan— As of July 1, 2012, the Department of Education ceased offering subsidized loans to graduate students. However, *unsubsidized* Stafford loans are available for eligible graduate students who can borrow up to $20,500 a year, with a maximum total of $138,500.

Direct PLUS Loan—Parents of dependent undergraduate students enrolled at least half-time and graduate students are eligible for this loan. The amount of the loan is generally limited to the actual "cost of attendance" minus any financial aid already received. Parents taking this loan must pass a credit check. PLUS loans have a fixed interest rate of 7.6%.

Some states base their programs not only on need, but also on academic performance. The recipients of state loans generally must be legal residents of the state and enrolled in a college or university within their state. In addition, some states have "reciprocity agreements" with other states. Remember, you may qualify for more aid than you think, and it is always better to apply. For more information, visit the U.S. Department of Education website at www.ed.gov. $

An Introduction to Split-Dollar Life Insurance

Contrary to what you may think, split-dollar life insurance is not an insurance policy, at least not in the classic sense. It is a type of arrangement that allows two parties, typically an employer and an employee, to split life insurance protection costs and benefits. The premium payments, rights of ownership, and proceeds payable on the death of the insured are often split between the company and a key employee. In many situations, however, the employer pays all or a greater part of the premiums in exchange for an interest in the policy's **cash value** and **death benefit**. Cash values accumulate, providing repayment security for the employer, who is paying the majority of the premium. In this scenario, business owners have the opportunity to provide an executive with life insurance benefits at a low cost. Another option for companies to consider is to use split-dollar policies in place of insurance-funded **nonqualified deferred compensation plans**.

The split-dollar arrangement is attractive to employers because it provides a way to recruit and retain top performers. In turn, employees have the opportunity to acquire future protection with a flexible policy that meets their needs. In addition, this type of policy can be used as a viable strategy for transferring wealth between a parent and child and for estate planning.

There are two basic types of split-dollar life insurance policies: **endorsement**, in which the employer owns the policy and specifies the portion of death proceeds payable to the employee's designated beneficiary; and **collateral**, in which the employee owns the policy. In this situation, the employer's premium payments are treated the same as interest-free loans. The employee assigns the policy to the employer as collateral for these loans. On the employee's death, the loans are paid from the face value of the policy. Any proceeds that remain are paid to the beneficiary or beneficiaries.

The Way It Was

Split-dollar arrangements date back to the 1930s. Over time, the Internal Revenue Service (IRS) came to view any gain or equity from a split-dollar policy, known as **equity collateral assignment split dollar**, as an interest-free loan and therefore taxable. The IRS regarded equity benefits as being profitable mainly for the party paying the lowest amount of the premium cost, and it introduced new regulations, to seek more overall transparency.

In 2003, the IRS finalized the new regulations on split-dollar policies, which are still in effect today. While validating the use of split-dollar policies in estate planning between donors and donees, the changes have curbed the use of equity collateral assignment split dollar for funding nonqualified executive compensation.

Variations on a Theme

The following two tax regimes emerged from the 2003 IRS regulations; they affect the structure of a split-dollar policy for business owners and estate plans and depend on who owns the policy:

1) An **economic benefit** (or **equity**) **regime** allows the business owner/employer or the donor to pay the annual premium as the owner of the insurance policy. Alternatively, an **irrevocable life insurance trust (ILIT)** can be the policy owner, in which case the gift of an economic benefit is made annually to the trust.

   If an employer owns the policy, the employer's premium payments would provide equity or economic benefits that are taxable each year. The employee is responsible for the taxes. Benefits could include, among others, an interest in the policy cash value or the cost of life insurance protection.

2) In a **loan regime** business arrangement, if the employee owns the policy, the employer's premium payments are considered loans to the employee. In this case, the employee would be taxed on the difference between the actual interest amount and the amount that would have accrued at the market interest rate.

Look Before You Leap

It is important to note that a split-dollar life insurance arrangement requires specific adherence to complex tax rules and regulations. Before establishing the policy, be sure to consult with your team of qualified insurance, legal, and tax professionals to determine how split-dollar life insurance may benefit you, your company, and your key employees. $

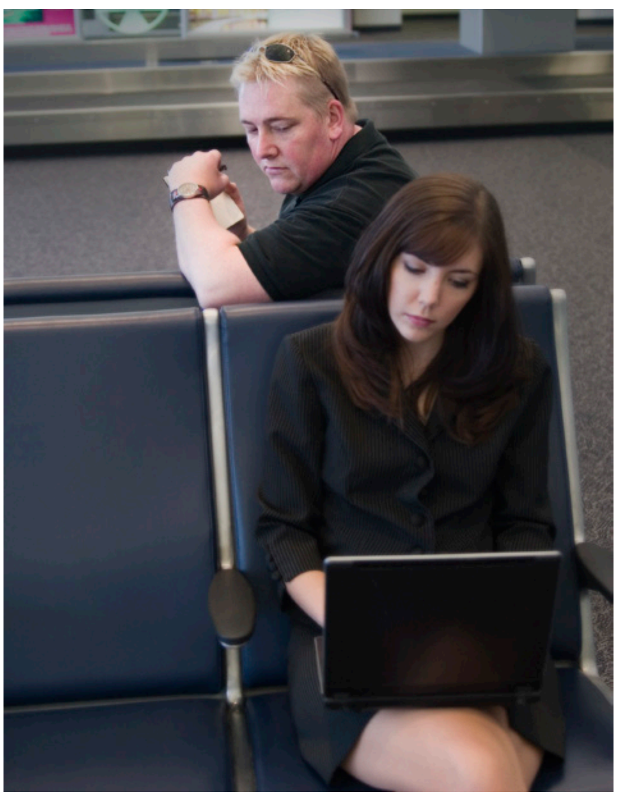
ID Theft: How Does It Happen?

In today's technologically advanced society, **identity theft** is a common and serious offense. The Identity Theft and Assumption Deterrence Act of 1998 defines identity theft as the following: when someone "*knowingly transfers or uses, without lawful authority, a means of identification of another person with the intent to commit, or to aid or abet, any unlawful activity that constitutes a violation of Federal law, or that constitutes a felony under any applicable State or local law*."

The Internet and automated teller machines (ATMs), now widely used for a variety of financial transactions, such as shopping online and making cash withdrawals, are often cited as two contributing factors to identity theft.

If you're concerned about your personal information getting into the wrong hands, familiarize yourself with the following ways a thief might obtain information with the intent to steal money or commit other crimes:

Old-Fashioned Stealing. Years ago, if your handbag was stolen or if your wallet was pickpocketed, you probably only worried about the loss of cash. Today, these losses could result in thousands of dollars in fraudulent purchases with credit cards. Thieves also steal personnel files and customer data from companies for Social Security numbers and other information.



"Dumpster Diving." If you dispose of trash in a dumpster, others may have access to it. Thieves might "dive in" and easily find the information they need, via old bank statements, credit card receipts and bills, which can wreak financial havoc in your name.

Intercepting Mail. Thieves regularly watch mailboxes, waiting for the arrival of the next credit card pre-approval letter. They can then call the credit card company posing as the intended recipient in order to open an account. While you cannot stop *all* solicitations, you can choose to "opt out" of receiving *some* of these letters. Call 1-888-5-OPTOUT to minimize unsolicited mail and phone calls.

"Shoulder Surfing." Shoulder surfing occurs when a thief lurks nearby while you provide personal information to another person or enter it into a machine. Typically, the thief peers over your shoulder and procures your information while you continue with your transaction.

Hacking. Many people rely on the Internet to manage their personal finances. While it can be a useful tool for banking or paying bills, the Internet can also be a haven for prospective identity thieves. Entering your personal information into an unsecured website may allow an experienced hacker to obtain that information.

Phishing: Some thieves also try to obtain personal information via email. They pretend to be financial institutions or companies and send spam or pop-up messages that ask you to reveal personal information.

Pretexting: In a similar way, thieves use false pretenses to trick you into revealing your personal information over the phone. They may pose as a representative from your bank, insurance company, or other service provider.

Skimming: After placing a special device on card processors and ATMs, thieves may be able to steal credit or debit card numbers when you process your card to make a purchase.

Protecting Yourself

If you become a victim of identity theft, it can be *financially*, as well as *emotionally*, devastating. With your personal information, a criminal might be able to open a credit card account and make fraudulent charges, or in more extreme cases, he or she may even assume your identity to get a job, file a tax return, and commit more serious crimes—all under *your* name. These are just some of the ways criminals may commit identity theft. Take steps *now* to protect yourself and your loved ones. For more details on avoiding identity theft, visit the Federal Trade Commission (FTC) online at www.ftc.gov. $

Continuing Care Retirement Communities: Aging in Place

Do you sometimes think about what your life will be like when you retire? Most people imagine living independently in comfortable and safe surroundings, preferably residing in their own home. With longer life spans and advances in health care, many retirees—if they retire early enough—may have several decades or more to enjoy their "golden years."

Continuing care retirement communities (CCRCs), also known as life-care communities**,** accommodate active, healthy older adults in a range of living quarters, such as single-family homes, apartments, or condominiums. As residents age and require assistance, they remain at the CCRC, but can enter an assisted living or nursing care facility. Such a community allows residents to remain in one place for the duration of their life, so they can age in place, without worrying about their future care.

The Cost of CCRCs

CCRCs usually require a one-time entrance fee and monthly charges. According to the American Association of Retired Persons (AARP), the one-time entry fee can range from $100,000 to $1 million, and it pays for care in advance and funds the CCRC's operating costs. Monthly fees can average $3,000 to $5,000 and more depending on your state of health, whether you are renting or buying, how many residents live in the facility, and the type of service contract you choose. Additional fees may be added for such options as for housekeeping, meal service, transportation, and social activities.

Three types of service contracts are usually offered. The **life care,** or **extended contract**, the most expensive, provides unlimited assisted living, medical care, and skilled nursing care. A **modified contract** provides care for a specified length of time, after which the monthly fee increases if you require other services. A **fee-for-service contract** allows you to pay a lower enrollment fee, but you would pay for assisted living and nursing home care, if needed, at the market rate.

Do Your Research

When you are researching facilities, it is important to be sure that the one you pick is financially stable, because you will want to be certain it will provide the housing and support you need 10 or 15 years into the future. Most states offer some level of CCRC regulation, so you should ask to see any licensing and inspection reports, complaint investigations, and audit reports. You should also plan to visit all of the different facilities in the community.

Seek Legal Advice

If you are considering this retirement option, you should get legal advice because of the complexity of CCRC contracts. Once you have worked out a contract, have your attorney look at it, to make sure it accurately reflects your agreement with the community. $

Giving Back to Your Community While Improving Your Bottom Line

Regardless of size, companies benefit when the community in which they do business thrives. For entrepreneurs, giving back to the community is more than just a charitable act; it makes good business sense. If you have been reluctant to get involved in philanthropic activities, fearing it could cost too much and distract your employees, think again. Community involvement can strengthen your company directly by bringing in new business and indirectly by enhancing your company's reputation and improving employee morale.

Crafting a charitable giving strategy for your business involves more than just selecting a worthy organization and writing a check. While you may get a tax deduction on cash donations, your business may get considerably more out of community involvement, especially if you carefully consider the causes you want to support and the organizations that would make appropriate partners for your company.

The type of charitable giving you choose may be influenced by the type of business you operate, the interests of your employees, and the needs of the community. Whether your company produces goods or provides services, organizations within your community could likely benefit from your support. A restaurant or caterer, for example, could choose to donate leftovers to a soup kitchen or homeless shelter. A construction company could donate materials and labor for building a community playground or renovating a youth center. Involvement in such worthy initiatives may be very effective in making a positive influence in the community.

To maximize the impact of your charitable efforts, your company (or the organization your company is helping) may choose to distribute a press release or inform the local media about upcoming events and activities. This often results in free—and positive—publicity for your company. It may also be possible for the charity to help increase your company's visibility through its marketing resources. When partnering with a nonprofit, you may be able to arrange for your company's name and logo to appear on the organization's advertising materials and website.

Ongoing charitable involvement can help attract new customers and engender loyalty within your existing customer base. A company that donates a portion of its profits to worthy charitable causes may gain a competitive advantage. It can generate goodwill among customers and enhance your company's reputation to be associated with important causes in your community, such as helping abused children, improving literacy skills, or finding homes for abandoned pets.

Employee morale can also be improved through charitable initiatives. When deciding which causes your business will support, be sure to include your employees, especially if you want them to participate in events. By asking your employees what causes are close to their hearts, you may discover that some have personal passions that can prove valuable to a charitable campaign. Providing paid time off for charitable work may be considered a valuable benefit by your staff. Having your employees volunteer as a group can serve as a positive team-building exercise, as well as provide a welcome break from the work routine.

Another benefit of giving back to the community is the potential for networking with other local businesses. Through professional clubs or your local chamber of commerce, you may meet other business owners who may want to cooperate with you in organizing events. By participating in charitable events, you and/or your employees may forge valuable friendships with other business owners, staff, and the media.

Regardless of your company's size and resources, you can find a way to make a difference in your community. Even minor gifts—such as allowing your facilities to be used for a school event or donating used equipment—can go a long way toward making your community a better place to live and do business. And that's the bottom line. $

How Much Can You Earn and Still Receive Social Security?

Retirees are often ready, willing, and able to start new careers that may earn them significant incomes during their years of "leisure." However, some individuals may feel that it is not worthwhile to work for wages, only to have to "give up" some of those earnings in the form of higher income taxes. As frustrating as that may sound, it is important to understand the fundamentals of Social Security income and taxation so you can make your retirement years more "golden" and less "taxing."

Income Limits: Paying to Work?

The first factor to consider is the Social Security "give-back." If you are age 62 or older, but still under the **full retirement age** (65–67 depending on your birth year), and receiving reduced Social Security benefits, you must "give back" $1 for every $2 earned above $18,240 in 2020. If you reach full retirement age in 2019, your benefits are reduced by $1 for each $3 earned over $48,600 in months prior to your full retirement age. When you reach your full retirement age, there is no limit on your earnings, and Social Security benefits are not reduced.

How Much Is Taxable?

A second factor affecting your Social Security income is the potential taxation of your monthly benefit. If you are working and also receiving a check from the Social Security Administration (SSA) each month, you must first determine how much, if any, of your benefit is included in your **gross taxable income**. The first step in estimating this amount is to add half of your Social Security benefits to all your other income, including any tax-exempt interest.

This total is then compared to a first-tier threshold of $25,000 for a single taxpayer or a married taxpayer who is filing separately and lived apart from his or her spouse for the entire year, or $32,000 for a married taxpayer filing jointly. For a married taxpayer filing separately, who lived with his or her spouse for any period during the year, the first-tier threshold is $0.

For illustrative purposes, suppose your total applicable earnings are $27,000, and you are married and filing jointly. Since the total does not exceed the applicable threshold amount of $32,000, then *no* portion of your Social Security benefit is taxable. However, if the total exceeds the applicable threshold amount, further calculation is needed to determine the amount of your benefit that is taxable. For more information, refer to IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, visit the Social Security website at www.ssa.gov, or consult your qualified tax professional.

Performing these calculations is no simple task. So, it is important to understand the potential tax consequences when thinking about receiving Social Security while still working, and plan accordingly. As with all tax planning matters, be sure to consult a qualified tax professional to help ensure that your planning decisions are consistent with your overall financial goals. $

Tips to Help Stretch Your Paycheck

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3) **Track your spending.** Record your expenditures for a month. Be especially careful about keeping track of any small, optional items you purchase. You may be surprised to discover how quickly purchases costing only a few dollars can add up. At the end of the month, review your expenditures and adjust your spending plan accordingly. Once you see where your money is going, you may decide to make different choices about your spending habits.

4) **Live within your means.** Many people feel as if they never have quite enough money to live on, yet they probably know people who successfully manage on less. If your expenses are less than your income, you are living within your means.

5) **Shop for value.** Look for opportunities to get more value from each dollar you spend. Join a warehouse or shopping club to buy items in bulk. Purchase clothing, furniture, and household goods on sale. Big-ticket items like cars and household appliances often depreciate substantially in the first one or two years. So, you may want to consider buying a certified, used car with reasonably low mileage or secondhand appliances in good condition for less.

6) **Minimize debt.** Keep your debt level low. By reducing debt, you also minimize interest and finance charges. When you are tempted to charge a purchase, remember that you are committing to pay for it from income you have not yet earned.

7) **Eat in.** Dining out can be expensive, since you are paying for the service, as well as the food. Meal taxes also add to the bill while liquor and desserts, which you may not ordinarily eat at home, boost the tab even higher. Therefore, reserve the fine dining for special occasions only.

8) **Reduce housing costs.** Housing is a major fixed expense. Consider reducing this cost by buying or renting a smaller place, or one with fewer amenities. If you rent and plan on staying in an area for more than a few years, consider buying. Owning a home is often more expensive than renting at first, but can be worthwhile in the long run.

9) **Trim transportation costs.** Many families now own multiple vehicles and have additional costs for insurance, repairs, fuel, and parking. Consider using public transportation or carpooling with others, whenever possible. The savings in vehicle-related expenses may offset any inconvenience.

10) **Create a cash reserve.** A cash reserve can help you stick to your spending plan and help keep you out of debt when emergencies, such as a major car repair or short-term disability, arise.

Cutting back on excess spending does not have to mean continually denying yourself life's simple pleasures. Instead, you may find that with living within your means and paying yourself first, your debts will decrease as your savings grow. A personalized spending plan can help provide that "extra" income and stretch your hard-earned paycheck a little further. $