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Financial *Planning Strategies*

A Financial Planning Update

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Retirement: A Community Audition

A house once filled with the constant comings and goings of a growing family has become quiet. Family visits are now few and far between. The indoor and outdoor maintenance of a home is getting to be more of a hassle than you had anticipated. If this sounds familiar, it may be time to look at your living situation as you prepare for your "golden years."

At different stages in life, your concerns about your house vary: at different times, you may think about its location and landscaping, whether it is close to community resources, and whether it allows social interaction and lifestyle consistency. If you have lived in the same home for many years, it may provide you a sense of continuity and of community, and it may also be paid for by the time you reach retirement. However, its size and upkeep—which may have been more appropriate at a time in your life when your children were still at home—may no longer suit you. You can begin to feel isolated in your family home if its location limits your access to social support systems (particularly if lifelong friends or family members have moved away).

Although housing needs change as we grow older, shelter, in any form, is always more than mere physical comfort. It is a financial, psychological, and social base that anchors our sense of stability. For this reason, some people who move to warmer climates early on in retirement later return to the familiarity of their original communities and the proximity of family and friends.

Retirement communities, also known as **55+ communities**, have become a viable option to consider for people in similar situations who are thinking about downsizing. These neighborhoods or complexes, which vary from condominium-style settings to single-family homes, usually require that at least one member of the household be age 55 or older.

This type of community typically offers an independent lifestyle for healthy and active adults who do not require assistance with daily living, as provided at an **assisted living facility** (**ALF**). The Housing for Older Persons Act of 1995 eliminated the requirement that these communities have "significant facilities and services designed to meet the physical and social needs of older persons." This legislation has increased the popularity of such communities for people age 55 and over who do not require assistance with the routine activities of daily living.

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Retirement: A Community Audition

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Considerations

Relocation of any kind requires a careful assessment of the possible pros and cons. Before selling your home to move to the newest 55+ community in your area, here are some important areas to explore and think about:

Security. Retirement communities may offer security that a typical neighborhood would not. Generally, they have security guards at the entrance of the neighborhood or building. With this added protection, you may feel more comfortable in your surroundings.

Recreation. With people living longer, retirement can be an active and fulfilling phase of life. Depending on the size, location, and affordability, some retirement communities offer world class amenities that can include a clubhouse for sports and billiards, a fitness center, an outdoor pool, and tennis and bocce courts. Many have a recreation center that organizes group activities for residents, such as movie nights, lectures, day trips, and dinner parties.

Maintenance. Although you may have once considered mowing the lawn and pulling weeds pleasurable pastimes, those same activities may not be as appealing now. Independent living communities typically take care of the landscaping and snow removal, helping residents to enjoy having a yard without maintaining it.

Costs. The services provided by retirement communities come at a cost that must be considered in addition to typical homeowners' expenses. Usually, there are entrance fees and monthly maintenance costs (similar to condo fees), which increase your purchase price and/or monthly bills.

Limited socialization. While many people consider a 55+ active community's lifestyle an advantage, residents without readily available transportation may view the prospect of being surrounded by the same group of people as socially confining.

Determining where you want to live in retirement is a decision that requires some serious thought. Whether you choose to stay in your home, look into various 55+ independent living communities, or choose to explore other living arrangements, it is important that you plan ahead and are comfortable with your choice. $

Do You Need a Valuation?

An appraisal or valuation may be the protection you need whenever you make property gifts. But, that may not be the only time to consider a valuation. Valuations of closely-held entities, real estate, or other property may be timely whenever you encounter one of the following situations:

1. Gifts of property.
2. Transactions between family members, which could be viewed as gifts.
3. Election of S corporation status.
4. Writing or updating shareholder/owner buy-sell agreements.
5. Conveyance of property to controlled entities.

Remember, a timely valuation can be a shield against future inquiries by the Internal Revenue Service (IRS). $

Life Insurance Solutions for Unmarried Couples

Unmarried couples face some unique financial and estate planning issues. While married couples typically use **life insurance** to provide funds to help replace income upon the death of a spouse, unmarried couples may have an even greater need for replacement income, since the surviving partner is ineligible for spousal benefits from Social Security and may also be ineligible for many **defined benefit pension plans**. In addition, both partners' estates may have a greater need for cash to help pay estate taxes, since unmarried couples are not entitled to the **unlimited marital deduction** for property bequeathed to one another.

With proper planning, life insurance may provide you with the cash you need to help meet your financial responsibilities as an unmarried couple. It may also offer a way to provide for your partner beyond a **will**, which carries the potential to be contested by family members.

Income Replacement

There are two ways to structure life insurance to help provide replacement income. You can either *cross-own* policies or own *individual* policies with the other partner named as the **beneficiary**.

Cross-owning policies. Let's suppose that you each own a policy on your partner's life. When one partner dies, the surviving partner uses the death benefit proceeds to help provide income. Since the policy is owned by the surviving partner, not the deceased, it is not included in the deceased's estate and therefore, is not subject to Federal estate taxes.

To cross-own policies, you may need to demonstrate an **insurable interest**. Spouses are automatically assumed to have an insurable interest on one another. As an unmarried couple, be prepared to prove insurable interest with evidence of jointly owned assets, and possibly, copies of wills or **trust** documents.

Individual policies with the partner as beneficiary. In this scenario, you each own a policy on your own life, naming your partner as beneficiary. The surviving partner uses the death benefit proceeds to help provide income. However, since you each own your own policy, the proceeds are included in the deceased partner's estate and may be subject to estate taxes.

Cash to Pay Estate Taxes

Married couples qualify for a special tax break the unlimited marital deduction that allows them to transfer unlimited assets to each other during their lifetime, or at death, free of gift and estate taxes. Since unmarried couples are not eligible for this deduction, the value of any property you leave each other above the **applicable exclusion amount** may be subject to Federal estate taxes. Some states may also levy estate taxes. Life insurance provides cash that can be used to help pay estate taxes. You can either cross-own policies or create an **irrevocable trust**.

Cross-Owning Policies. With cross-owned policies, you each purchase insurance in the amount of the estimated taxes. As mentioned above, one advantage of this approach is that you each own the policy on your partner's life. Consequently, the proceeds are not included in your partner's estate.

Irrevocable Trusts. With irrevocable trusts, a **trustee** buys and owns the life insurance policy, and each insured furnishes the trust with the funds to pay the premiums. However, irrevocable trusts must be structured properly to avoid adverse tax consequences. They are costly to set up, and as the name implies, they cannot be revoked if circumstances should change in the future.

Life insurance has long provided a valuable solution for many married couples who may need cash to help replace income and pay estate taxes at the death of a spouse. As an unmarried couple without the legal protections of marriage, your need for cash at the death of a partner may be even greater. As with all insurance and estate planning concerns, be sure to consult qualified professionals to discuss your unique circumstances and to help ensure that all arrangements are structured properly. $

Unpaid Student Loans May Result in Docked Social Security Checks

When an individual ceases making payments toward his or her student loan, the loan falls into default. The consequences of someone defaulting on a student loan can be severe and include damage to his or her credit report, the inability to build savings or apply for other loans, and wage garnishment. Recently, many retirees have discovered that defaulting on Federal student loans can result in their Social Security benefits being docked.

The Consequences

According to Debt.org (March 2016), Americans owe $1.2 trillion in student loans, which is significantly more than credit card debt or car loans. Almost 7 million borrowers are delinquent on their loans. Federal student loans account for approximately 85% of all student-loan debt; private student loans made up the rest. However, private lenders can garnish wages only—they do not have the authority to dock Social Security benefits.

The Federal government is withholding a portion of Social Security benefits from recipients who have fallen behind on their Federal student loans. According to the most recent report from the Treasury Department, while there were only 6 such cases in 2000, by 2007 there were 60,000 cases, and in the first seven months of 2012, approximately 115,000 individuals had their Social Security checks docked due to unpaid Federal student loans.

Although the amount of money the government withholds from Social Security varies, it can be as much as 15%. Supposing an individual receives a monthly Social Security benefit of $1,000, he or she could have as much as $180 docked from each check, which can be significant for retirees on a fixed budget.

While some retirees may still be carrying debt from the student loans they took out in their youth, others relied on Federal loans when they returned to college or went to graduate school for a mid-life career change. In many instances, the debt retirees are now carrying was not for their own education, but to help their children, grandchildren, or other dependents fund an education.

Loan Balance Collection

The Department of Education provides Federal student loans to students and provides payment plans to accommodate borrowers who fall behind. It would take nearly two years of non-payment before an account is sent to a collection agency. If the collection agency fails to collect the money, the loan balance is transferred to the Treasury Department, which has the power to garnish Social Security checks. The Treasury Department generally sets up payment plans with borrowers on two separate occasions before dipping into their Social Security checks. However, the Treasury does not withhold money from monthly Social Security checks totaling $750 or less.

The Aftermath

A variety of extenuating circumstances can lead to student loan default, such as an uncertain economic climate coupled with the rising cost of college tuition. As a result, students in all age groups are incurring more debt than previous generations.

If you are considering student loans for yourself or a family member, think carefully before you sign on the dotted line. Remember, unlike other types of debt, student loans cannot be discharged by declaring bankruptcy. It can quickly become a burden for even the most financially responsible Americans. $