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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

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Planning for Business Succession

Business owners are often preoccupied with the day-to-day concerns of running and growing their companies, so **business succession** planning can often be overlooked, until it's too late. What would happen to *your* business if you were unable to work due to disability, or an unexpected death? Would your co-owners, managers, employees, and family members have the guidelines and tools in place to maintain your business?

Tips for Success

While there are many ways to approach succession planning, here are some basic steps to help you create a comprehensive plan:

Start now. Your family's financial future may depend on a sound succession plan. Get an early start, and follow the process through to completion.

Assemble a team of professionals. Because business succession planning involves many areas, obtain assistance from your team of qualified estate planning professionals, including your attorney, accountant, tax advisor, and insurance professional. They can work together as a team to help you develop a plan to achieve your objectives.

If you want your business to continue after your death, choose an appropriate form of ownership. The *form* of business you choose has tax, liability, legal, and business implications. If your business is established as a **sole proprietorship** or a **partnership**, it may be more difficult to transfer ownership after your death. To help ensure business continuity in the event of your death or incapacity, or that of one of your partners, consider converting

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College Financial Aid: Do Your Homework

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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 funding sources. The number of Federal aid programs available is encouraging. But keep in mind that the sequestration budget cuts that went into effect on March 1, 2013, may have an impact on some of the following popular programs, while others will 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 2013–2014 award year is $5,645, 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 $100.00 up to $4,000.00. 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—These loans are generally available for students in exceptional financial need who will be enrolled either full time or part time. The amount an individual can borrow depends on his or her financial situation, the amount of other aid to be received, and the availability of funds at the specific college or career school. A student should apply for Federal student aid early to assure being considered. Due to limited funds, however, not everyone who qualifies will receive a Perkins Loan.

An undergraduate student may be eligible to receive up to $5,500 a year. The total an individual can borrow as an undergraduate is $27,500. A graduate or professional student may be eligible to receive up to $8,000 per year. The total an individual can borrow as a graduate student is $60,000, which includes amounts borrowed as an undergraduate.

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-$5,500, up to a lifetime limit of $23,000, depending on grade level. For loans first disbursed between July 1, 2012, and June 30, 2013, there is a 3.4% 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 7.9%.

It is important to note that due to the sequestration budget cuts that took effect on March 1, 2013, Federal Direct Loan Program interest rates and origination fees may increase slightly.

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. $

Shielding Your Finances from Disaster

Whenever catastrophic events occur, they clearly demonstrate that our communities and livelihoods can be unexpectedly destroyed in a matter of minutes. In the aftermath, many victims of natural disasters struggle to get back on their feet financially. While there is no way to completely prevent a natural disaster, there are steps you can take to protect yourself and your family from financial difficulties should you be forced to evacuate your home in an emergency.

Here are some strategies to help prepare for potential disasters:

Store important documents in an "evacuation box." Gather and make copies of all your key financial and personal documents, including passports and birth certificates, marriage licenses, wills, property deeds, insurance policies, mortgage records, car titles, and stock and bond certificates. Make copies of the front and back of all credit cards and driver licenses. Then make a list of all your account and credit card numbers, as well as a written and photographic inventory of all your valuables. Be sure to have enough cash or travelers checks to last your family about three days.

Keep all essential documents in a bank safe-deposit box located away from your home or in an airtight, waterproof, and fireproof safe or container that can be easily taken with you in case of an evacuation. Inform family members or trusted friends of the box's location in case you are unable to personally retrieve it.

Maintain liquidity. Avoid tying up all of your assets in real estate or investments that cannot be tapped without paying penalties. Keep the equivalent of three to six months' income in a savings or money market account. You may also want to have on hand several credit cards with high available balances, or arrange in advance a line of credit for an emergency. If you have a 401(k) account with your employer, find out whether your plan allows you to take a loan out against your savings.

Protect your property. If you live in an area that is vulnerable to natural disasters, consider ways to mitigate potential damage to your property. Depending upon the type of disaster likely to strike in your location, you may want to take precautionary measures, such as anchoring the foundation and roof, installing hurricane shutters on windows and glass doors, adding fire-resistant siding, securing items that could fall or blow away, moving electrical panels and furnaces to upper levels, installing smoke detectors, and clearing brush from around the house. If uncertain, ask a building inspector to recommend structural or other types of improvements. By taking protective measures, you may be able to negotiate a reduction in your homeowners insurance premiums.

Purchase adequate insurance coverage and review your policies regularly. Many people who have lost their homes to disasters learn that their insurance policies do not cover the cost of rebuilding. If you have homeowners insurance, check your policy annually to ensure that it covers the actual replacement cost of your home and its contents. This is especially important if the value of your home has risen significantly or if you have made improvements to the property. Be aware that your policy may not cover damage due to specific causes, such as flooding. If the insurance you need is not available through private companies, find out if state or Federal insurance pools would provide coverage.

In addition, you may want to consider disability income insurance coverage to provide a source of income in case you are injured in a disaster and unable to work for a period of time. If you receive health benefits through your employer but lose your job, you may keep your coverage for a specified period of time under Federal COBRA laws. Also, make sure that your life insurance coverage is sufficient to meet the needs of your family. It may be possible to withdraw some or all of the cash value from a permanent life insurance policy, if necessary. However, access to cash values through borrowing or partial surrenders can reduce the policy's cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.

Don't wait until disaster strikes—the time to prepare is now. Consider consulting a legal professional about the potential benefits of additional protection, such as trusts, powers of attorney, or living wills. $

The Importance of Domicile for Your Estate Plan

Increased mobility in today's society has changed the way we live, work, and play. Compared to previous generations, it is now quite common for work and recreational activities to cross state lines, resulting in ownership of property and formal relationships in more than one state.

When considering the terms **domicile, statutory residence**, and **residence**, although they may seem similar at first, it is important to understand their distinctions. Your ***domicile*** is the state where you maintain your permanent residence and intend to return to for prolonged periods. An individual, however, can have only one legal domicile at a time. A ***statutory residence*** is the place where you live and work, and therefore are subject to state income tax. If you are a statutory resident of one state, while claiming domicile in another, your state of domicile may also require you to file a tax return. Your ***residence*** is any place (or places) where you live; the term "residence" bears little or no legal significance.

Estate Planning

Where your will is **probated** is also determined by your domicile. If your domicile is unclear at your death, several states may be able to claim you as a domiciliary and tax your estate accordingly. Keep in mind that estate tax laws vary by state, and state laws may differ from Federal laws. In some states, your spouse may be taxed on a portion of his or her inheritance that, in another state, would pass to him or her free of state estate tax. Some states exempt smaller estates and certain property from the probate process. Other considerations may also apply.

In addition, your choice of domicile can affect your overall financial plan, especially regarding property ownership. Not all states define property ownership in the same way.

Some allow married couples to own property and income separately. In other states known as community property states, married couples share ownership of all assets acquired *during* the marriage, but each spouse may own previously acquired property separately.

Further, your choice of domicile can affect your state income tax. Your income may be taxed in your state of domicile, the state where you earn income, or both. If you change your domicile during the tax year and both your present and former domiciles tax income, you may have to file partial-year tax returns in both states.

Establishing or Changing Domicile

You can take certain steps to establish your state of domicile. In general, your domicile is not determined by the length of time you spend in a state. You may establish a domicile when you first occupy a property, or you may spend decades in a place and never call it your domicile. If you marry a person domiciled in another state, you may be able to claim your spouse's domicile as your own, even if you never visited that state.

If you have moved, your "true" domicile may hinge on the *number* and *significance* of the contacts you have in your former and present state. Here are other significant factors for you to consider:

Retention of "historical" home. If you have moved, have you sold your long-time residence in a former state?

Business relationships. In which state are your significant business contacts located?

Location of property. Where is most of your significant real and tangible personal property located?

Social connections. Where do you maintain civic, religious, or family connections?

Time spent. Where do you spend the majority of your time?

While you may feel your *intent* is clear, it is most likely that your *actions* will determine the evidence of your intentions. Consequently, simple acts such as registering to vote in a new locale, changing your automobile registrations and driver's license, resigning from organizations in your former state, and joining organizations in a new state may also be viewed as evidence of intent to change your domicile.

Because your choice of domicile can affect your overall estate planning, be sure to consult your professional legal and tax advisors for specific guidance with your unique circumstances. $

Taking Charitable Giving to Another Level

Did you know that you can gift a new or existing life insurance policy to your favorite charity? When properly designed, a **charitable life insurance** program may improve your overall financial situation and offer tax benefits, all while supporting a charitable cause.

Generally, there are three methods used to gift a life insurance policy to a qualifying charity: a **charitable bequest**, a **charitable gift**, and a **charity-owned policy**. Regardless of the strategy, policy ownership and **beneficiary** arrangements play an important role in the planning process. A consultation with a qualified legal professional can clarify your goals and expectations, provide information on the limitations on charitable deductions, and help you achieve the desired results, while avoiding unnecessary complications.

A Comparison of Gifting Strategies

A ***charitable bequest*** is ideal if you would like a charity to benefit from the proceeds of an existing life insurance policy but do not wish to surrender control during your lifetime. By changing the designated beneficiary to a desired charity, you retain the benefits of owning a policy because **incidents of ownership** still exist in the policy. There is no immediate income tax benefit for this type of charitable gift. Upon your death, however, even though the proceeds will be included in your gross estate, a charitable deduction for the full value of the policy proceeds is allowed.

If you wish to receive an *immediate* income tax deduction for a gift of an existing policy, consider a ***charitable gift***. By changing the beneficiary *and* ownership designations to a favorite charity, you can obtain an immediate gift tax charitable deduction for the policy. This deduction is based on the lesser of your cost basis or the value of the policy. You may also qualify for an income tax deduction.

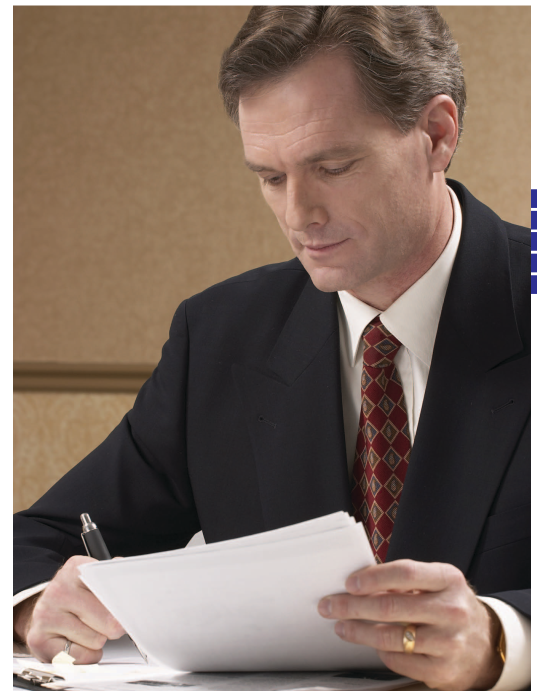
If you make regular cash contributions to a charity, you may be able to leverage smaller gifts into a larger endowment. With a ***charity-owned policy***, a life insurance policy—where permitted by state law—is purchased by and made payable to a charity of your choice. Policy premiums are technically paid by the charity. To offset this cost, you make annual cash gifts to the charity, and as a result, you may be eligible to deduct a portion of your charitable donations from your income taxes. A gift tax charitable deduction for the full value of the annual cash gift is allowed. This strategy creates a "win-win" situation for you and the recipient charity.

Know the Insurable Interest Laws

Regardless of your gifting strategy, be aware of the insurable interest laws in the state where the policy was originally purchased. Although the donor makes contributions to the charity in cash, which is then used by the charity to pay premiums on the life insurance policy, the life insurance policy insures the donor's life. Insurable interest is typically considered to be an interest based on family, marriage, or financial obligation; consequently, the charity's insurable interest in the policy may be called into question, thereby jeopardizing the tax benefit and placing the policy proceeds in the donor's estate. However, a case for insurable interest can be anticipated and incorporated into the trust documents.

The Best of Both Worlds

If you are charitably inclined and are seeking tax advantages, the gifting of life insurance can offer unique planning opportunities. The potential for charitable income tax deductions or an estate tax reduction, combined with supporting a worthy cause, may make this type of gift appropriate for you. Usually, such charitable life insurance gifting strategies can be accomplished with few legal challenges and little publicity. Careful planning, with the guidance of a qualified legal professional, can help ensure that your charitable life insurance program is structured according to your wishes. $



Take the Long View for a Successful Retirement

You have worked a lifetime to reach retirement. But, planning does not come to an end when retirement begins. How you handle the various tax issues and regulatory pitfalls that you may encounter on the road to retirement can make a difference in the long-term success of your retirement strategy.

Here are some important concerns associated with retirement planning you may want to consider *now*:

Early retirement and early withdrawals. For many people, early retirement represents a lifelong dream. However, if you take withdrawals from your retirement vehicle savings before age 59½, you may be subject to a 10% Federal tax penalty. To avoid this penalty, you can elect to take your annual withdrawals in a series of substantially equal periodic payments. The payments must continue for at least five years, or until you reach age 59½, whichever comes later.

There are a few exceptions in which early withdrawals may be taken without penalty (e.g., death and disability). At 10%, the penalty tax can be significant, so it is important to plan accordingly.

Waiting too long. You must begin taking required minimum distributions (RMDs) from your traditional **Individual Retirement Account (IRA)** by April 1st of the year after you reach age 70½. (Distributions from an employer-sponsored qualified plan can be postponed until retirement if you continue working past age 70½, provided you are not an owner-employee.)

If you ignore the RMD or do not take out enough from your IRA, you may be subject to a 50% penalty tax. The tax will be incurred on the difference between what you should have taken out of your IRA and the actual withdrawal amount. Your minimum withdrawal amount is based on the previous December 31st balance, divided by your life expectancy (or the joint expectancy of you and your spouse, if applicable).

Working while receiving Social Security. If you receive Social Security and also continue to work, a portion of your benefits may be taxable. For more information, you can refer to Internal Revenue Service (IRS) Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*, or consult with your tax professional.

You may also be subject to the so-called Social Security "give-back." The law requires a give-back of $1 for every $2 earned above $15,480 in 2014 for individuals who are between the ages of 62 and full retirement age and are receiving a reduced Social Security benefit. For the year in which an individual attains full retirement age, the give-back is $1 for every $3 earned in excess of $41,400 for 2014. Starting in the month in which the individual attains full retirement age, the give-back is eliminated. If you are under full retirement age and thinking about taking Social Security benefits while still working, it is important to understand the potential tax consequences and plan accordingly.

Where you live can make a difference. While some retirees prefer to remain in their community, surrounded by the familiarities of home and long-term friendships, others seek a fresh start in a new location with more cultural activities and recreational opportunities. Upon deciding where you would like to live in retirement, remember that each state has its own rules on income, estate, sales, and property taxation. Your tax professional can help you determine potential tax advantages and disadvantages of your retirement destination.

It's Not Over When Retirement Begins

Your retirement savings plan of building a nest egg over time will need to continue. You can benefit from maintaining a financial strategy consistent with your changing goals during your golden years. Consult your qualified financial and tax professionals for specific guidance according to your unique circumstances. $

Planning for Business Succession

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to a **corporation**. Corporate status provides for the "perpetual existence" of the business, as well as limited liability for business owners.

Choose and groom your successor carefully. It is important to select a successor while you are still active because grooming your successor and familiarizing him or her with the finer points of your business may take years. Choose someone who can step into your shoes easily and help facilitate a seamless transition. A successful transition to new leadership depends equally on the person you select, as well as the training and experience you provide.

Create a business "will" and a buy-sell agreement. The business will is a comprehensive planning tool that can detail, in step-by-step format, your plans for the continuation of your business, including your management plan. In your business will, you may also name your successor.

An important adjunct to a business will is a **buy-sell agreement**. A buy-sell agreement obligates one party to *buy* and the other to *sell* his or her interest in the business following a triggering event, such as the owner's death or disability. A buy-sell agreement can be structured as an entity purchase (redemption) agreement, a cross-purchase agreement, a hybrid (combination) agreement, or a "wait-and-see" agreement. Your planning team can assist you in selecting the most appropriate structure for your buy-sell agreement.

Consider funding your buy-sell agreement with insurance to enable your chosen successor to buy the business. Although a buy-sell agreement can help ensure that your business will remain with your family or business partners in the event of your death or disability, adequate funds must be available to meet the requirements of the agreement. **Life insurance** is a funding vehicle that can help ensure adequate liquidity should a qualifying event force the sale of an ownership interest. **Disability buy-out insurance** may also be purchased on the owners to fund the purchase of the business specifically in the event of a disability.

Establish a dollar value for each owner's share. For most small, closely held companies, it is not easy to put a dollar value on the business. You may need to obtain an independent appraisal of your business to help formulate your buy-sell agreement.

Develop an estate plan to ensure adequate liquidity to help pay estate taxes and other final expenses. Without prior planning, there may be no provision or funds available to pay estate taxes, which could be significant. You may want to consider purchasing enough life insurance to help cover the cost of estate taxes.

In addition, consider **transferring** part of your business ownership to family members involved in the business using certain gifting or sale techniques. While relinquishing control of your business can be challenging, it can help reduce your assets, thereby reducing your potential estate tax liability.

Discuss your plans with all involved parties. By letting your family and management team in on your business succession plan, such as who will take over as owner and head of the company and why, you can help to minimize stress and confusion for your successor and your family.

Review and update your succession plan as needed. Once your plan is established, review it periodically with your team of professionals to address any changes that may be required. If a major change occurs in your business or personal life, review and revise your plan, as is necessary.

The time you take today to plan for business succession can help ensure that your wishes will be fulfilled when the time comes to transition into new ownership. Your family members and business associates will also benefit from your thoughtful consideration of their future needs. $

When Giving, Get a Receipt

Charitable contributions can be especially important to help support an organization or a cause that's close to your heart. As an added benefit, you may be able to deduct a portion of your contributions on your Federal income tax return. However, as with all tax deductions, it's important to keep accurate records of charitable donations in the event you one day need to substantiate such gifts. Therefore, be sure to obtain a receipt to confirm your charitable contribution.

If you make a donation to a charity of cash or property valued at $250 or greater, request a *written* acknowledgment from the recipient charity. While receipts are not filed with your annual Federal income tax return (Form 1040), store receipts with other tax documents for the year in which the donations were made. $

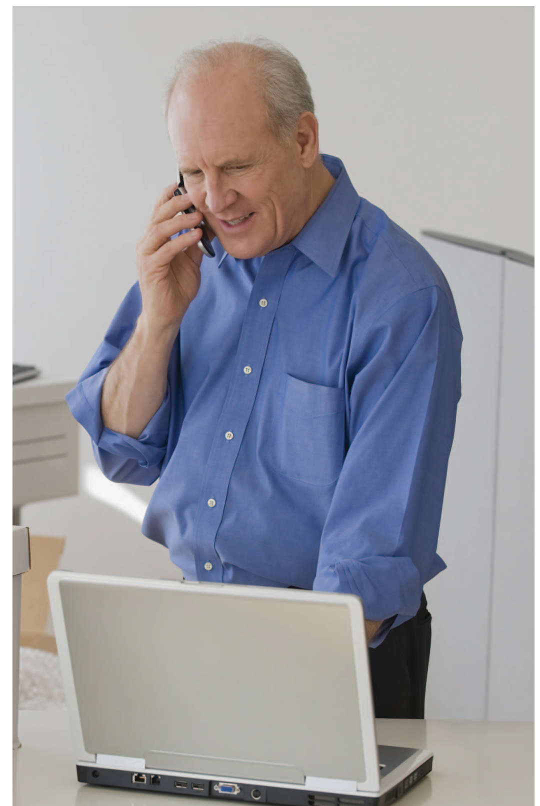
Financial Success and the Busy Professional

Sometimes, highly compensated executives, professionals, and business owners struggle to maintain long-term personal financial success. Although they may have achieved a level of financial security others envy, their primary focus may be on developing their businesses or careers—to the exclusion of managing their personal finances.

If you are among these busy professionals, here are six simple steps to help put your own finances on solid ground:

- Pay yourself first
- Reduce your consumer debt
- Diversify your savings
- Make the most of your tax-deferred saving opportunities
- Keep your estate plan up-to-date
- Set long-term personal financial goals

You've achieved great success in your career and business ventures. With the help of your professional advisors, you can work toward meeting your personal financial goals, as well. $



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