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Waller Financial Planning Group LegacyPress

LIFESTYLE & LEGACY CHOICES BY DESIGN℠

Fact

55% of Americans die without a will or estate plan.

Source: American Bar Association

> *"Financial freedom is available to those who learn about it and work for it."*
>
> **Robert Kiyosaki**

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Reverse Mortgage: What Is It? Is It Right For Me?

By: Charles Kerwood, III, CFP®, ChFC®, AEP®

A reverse mortgage is a special type of loan that allows the borrower to access the equity in their home. Unlike a traditional mortgage or home equity line of credit, the loan is not required to be repaid until the borrower no longer uses the home as their principal residence. The most commonly used reverse mortgage is the Home Equity Conversion Mortgage (HECM) offered by the Federal Housing Administration (FHA).

Who Qualifies for a Reverse Mortgage?

One would use a reverse mortgage if they need to supplement their income to pay for daily living or medical expenses. In order to qualify for a reverse mortgage, the borrower must be at least 62 years of age. In addition, the home must be debt-free or have an existing mortgage with a very low balance. Finally, the borrower must live in the home as their primary residence, and be able to pay the ongoing real estate taxes and insurance on the property.

What Types of Homes are Eligible for a Reverse Mortgage?

Generally, most single-family homes and 2-4 unit homes are eligible for a reverse mortgage, as long as the borrower lives in the home. In addition, manufactured homes and condominiums that are Housing and Urban Development (HUD) approved and meet FHA requirements may be eligible.

How Much Money Can I Get out of My Home?

The amount of money that can be withdrawn using a reverse mortgage is based upon age (older is better), the appraised value of the home and the current interest rate.

How Are Payments Received?

The cash may be taken in any of the following ways:

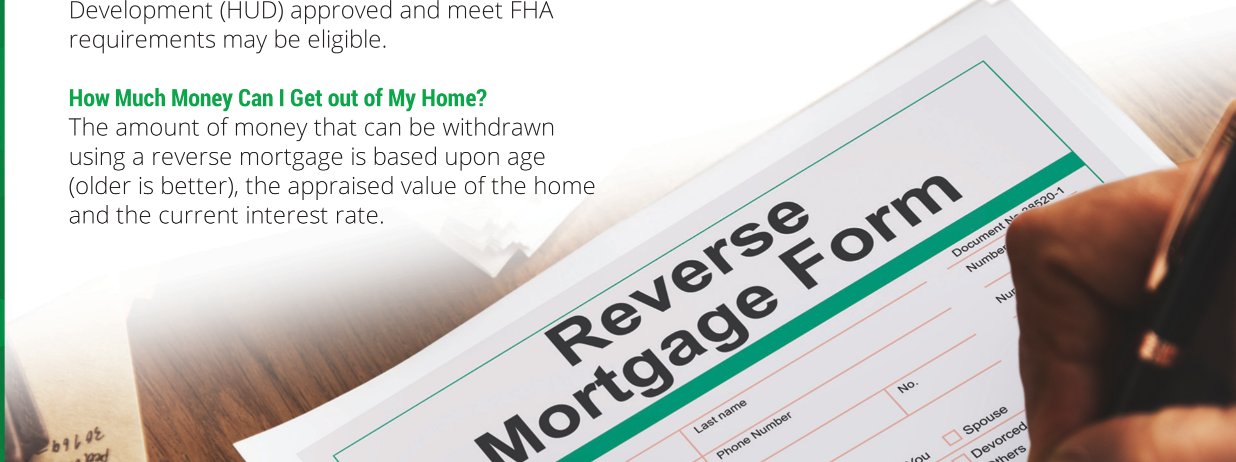
- Lump sum of cash
- Monthly payments for the life of the loan
- Monthly payments for a certain number of years
- Drawn on as a line of credit as neede

Other Considerations:

Some other characteristics of a reverse mortgage that should be considered are:

- Interest on the loan is not tax deductible
- There are fees and other expenses associated with the loan, both initially and during the term
- You must still have the funds to pay ongoing property taxes and insurance on the home
- Within six months of the last borrower moving out of the home (or passing away), the loan must be repaid. Note that the debt is non-recourse, i.e., if there is not sufficient equity in the home to repay the loan, the borrower (or heir) is not responsible for making up the difference.

As with any planning strategy, it is important to be aware of both the benefits and risks of its use. Please **contact us** to see how our Certified Financial Planners™ can help you.



4 Simple Tips To Improve Your Financial Literacy

By: Jason Farris, CFP®, CAP®

The Center for Financial Literacy at Champlain College recently published its 2016 National Report Card on Adult Financial Literacy, and the results indicate there is much room for improvement. 59 state-specific data points were used from 18 recognized organizations to formulate a report card grade for each state. Unfortunately, no state received a grade of A+ or A. Only 22 states received a grade of B- or better.

Is your state making the grade? **Click here** to find out more information or download the full report.

Every day we make financial decisions, which impact us and our families. Yet, do we possess the requisite skills to make such decisions? The 2016 National Report card on Adult Financial Literacy suggests many individuals need to make significant progress. The knowledge and skills attained through financial literacy help limit poor financial decisions and assist in alleviating difficult financial circumstances. It is necessary for individuals to obtain such skills in order to best position themselves and their family for financial success. Financial literacy is more than merely balancing a checkbook. It is the comprehension of how today's decision will impact long-term goals.

Donald Laackman, President of Champlain College, says financial literacy is an urgent need for people of all ages, economic situations and backgrounds to better understand how to manage their money and develop lifelong habits necessary for a healthy financial life.

Here are 4 simple, yet effective tips to immediately improve your financial literacy:

Review & Understand Financial Statements

When your statements (e.g., bank, investments, pensions, mortgage, credit card, etc.) arrive in your mail, do you quickly glance at it and discard? Or, when you receive an email indicating your statement is available, do you simply click delete? Instead, challenge yourself to review your statements and test your understanding. You should be able to articulate what is being reported and understand the acronyms.

Know Your Cash Flow Needs

Many of us can recall our annual salary off the top of our head; however, our household budgets usually operate in shorter frequency (e.g., quarterly, monthly, etc.) Many tend to construct their budget based on their gross salary. These factors often led to misunderstandings of cash flow. Are you aware of your available cash flow after taxes and savings? If not, it is necessary to familiarize yourself with cash inflows and outflows. Additionally, a firm grasp of expenses is critical – one should know the amount of money that is needed to operate the household. Can you freely recreate your budget (either in your head or on paper) within a minute or two? If this task is a struggle, you need to get more acquainted with your cash flow needs.

Are You Maximizing Employer Benefits?

Employee benefits are an important component of a compensation package, but have you thoroughly reviewed them since you first accepted your job? Benefit offerings do change, and as your career continues to develop, more benefits may become available to you. Also, keep in mind your personal circumstances may have changed since the last time you made decisions on your benefits. Often employee benefits are underutilized and need to be routinely reviewed.

Rely On Your Advisors

The professional advisors you depend on should be your advocate. As such, they will welcome questions and the opportunity to help you improve your financial literacy. If they are not inclined to help, then maybe it is time to find a replacement. Advisors recognize a more financially literate client can lead to discussions that are more impactful. If you are only leveraging your advisor to improve your circumstances and not your knowledge, you should make it a priority.

The world of finance is becoming more complex by the day. While you may never become an expert, you can strengthen knowledge and skills. Like other aspects of our lives, those who experience the most success have the discipline to turn knowledge into action.

Creative Giving: More Ways To Donate

By: Jason Eliason, CFP®, ChFC®, CFA®

Giving to a charity is easy, right? You write a check and send it off to your favorite 501(c)(3) organization, and get a full deduction for the amount on your tax return, up to 50% of your adjusted gross income.

Most professionals would recommend that you put a bit more thought into how you give. For instance, instead of giving cash (which is basically what you're doing when you write that check) you could try a more tax-friendly approach: give stock or mutual funds that have gone up in value during your time of ownership. You get a deduction equal to the full value of the securities at the time of donation (rather than how much you originally paid for them), and never have to pay capital gains taxes on the appreciation.

Another common strategy is utilizing the IRA Charitable Rollover provision, which permits individuals over 70½ to donate up to $100,000 to charitable organizations directly from their Individual Retirement Account (IRA). For more information on IRA Chartable Rollover, read our article: **6 Tips You Should Know About IRA Charitable Rollover**.

If you want your donation to provide income during your retirement, consider a **charitable remainder annuity trust or charitable remainder unitrust,** where you put money in a trust set aside for your favorite charity. Over the rest of your life (up to a maximum of 20 years), you receive income of at least 5% of the original trust value (annuity trust) or the annually-recalculated actual value (unitrust) each year. When you die, or the term of the trust runs out, whatever assets remain in the trust are forwarded on to the designated charity. In each case, there is a tax calculation, based on the assets and the income you receive, which determines how much of a deduction you will get when you donate to the trust. In addition, you avoid paying capital gains and depreciation tax recapture (if the assets happen to be real estate) on the property you contribute.

As an example, suppose you have $1 million worth of real estate that you originally purchased for $200,000. When you sold these properties, you would owe capital gains taxes on the $800,000 of appreciation, plus recapture of the annual depreciation deductions.

Now let's say you donated this property to a charitable remainder unitrust. The unitrust would sell the properties for $1 million and reinvest that money in stocks or mutual funds. Under this arrangement, you might get income in the first year of $60,000 (6% of the trust amount), defer $120,000 in capital gains taxes and receive an immediate tax deduction of approximately $400,000.

If the stocks and funds in the trust were to earn 7% a year (no guarantee, obviously), then the value of the trust would increase, over the next 20 years, to just under $1.5 million, at which the full amount would be donated to the charity. Overall, you might receive roughly $1.2 million in income over that same 20-year time period—a figure which, again, depends on the earnings inside the trust.

Another alternative is the **lead trust,** which works essentially the same way, except that this time the income is paid to the charity for that 20-year term, and then the assets in the trust pass to your heirs' estate tax free. The lead trust is only appropriate if your assets at death would exceed the current estate tax threshold ($5.49 million per individual, $10.98 million for couples); however, the current Presidential administration has vowed to eliminate estate taxes altogether, so not many are rushing to implement lead trusts at the present time.

Finally, some families are creating a **charitable inheritance,** where the parents donate to a donor-advised fund, receive their tax deduction, and the donor-advised fund invests the assets until the fund is told where they should be distributed. The children are designated as the advisor to those assets, giving them the right to instruct the donor-advised fund where to make donations. It's a simple, creative way to provide the adult children with an opportunity to determine their own charitable inclinations.

The bottom line here is that donating to a charity can be more rewarding and tax-efficient than simply writing a check. If you have any questions on how this may benefit your personal situation, please contact us at **(614) 457-7026** to speak with an adviser, or contact us through email.

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News and Notes

Make a Difference Day

In April, our clients and staff volunteered at *Dress for Success Columbus* for Make a Difference day. To see our group in action, and learn why the cause is so important for our community, visit the media page at **www.waller.com**.

Congratulations to the Rendle family!
Lauren Marie Rendle was born February 26, 2017, weighing 7 lbs. 5 oz.