April 26, 2019

Dear Clients and Friends,

Executive Summary:

- Sharing financial information within a family can uncover opportunities to benefit multiple generations.

- Financing college with loans can expand options, but the long-term costs must be understood.

- College graduation season will soon be here. Will your young graduate get off to a good financial start?

- Senior generations can enhance a family's future, even if they aren't wealthy.

Intergenerational Planning

What is meant by intergenerational planning? It's a process designed to identify and recommend planning techniques within the extended family unit. It includes, but is not limited to, enhancing the transfer of wealth from one generation to another. This level of planning requires a willingness of each person within the family to disclose and share information about their tax and financial profiles.

The following are some examples of coordinated intergenerational planning.

College Selection

The current college admissions scandal is a window into the competitive, and sometimes corrupt, nature of positioning applicants to obtain a seat at one of the "best" colleges. It's important for parents to have a realistic understanding of how much support they can afford when a child begins the college search process. Plans to adequately fund the parents' retirement should be in place first. While loans are available to help finance the cost of college, loans to finance retirement don't exist.

Let's assume that parental retirement planning is on track and that, in consultation with the parents' financial advisor, it is decided that the parents will finance the cost of an in-state college or university. What if the child has their heart set on a private college or an out-of-state public university with a higher all-in price tag? It's important at this stage for parents to hold their ground and stick to a plan that secures their own future retirement security. Otherwise parents could find themselves dependent upon children for financial support in retirement, which is a situation many parents seek to avoid.

If a child wants to attend the more expensive college and finance the difference in cost, they should do so with their eyes open and without the need for parents to co-sign for the debt. Let's say the difference in the college decision is $20,000 a year. Let's also assume that the student will require five years, the current average, to obtain an undergraduate degree. Explain to the child that he or she will be graduating with a debt of $100,000 or more. A loan of $100,000 could result in a monthly payment of $1,063 for ten years (at 5.05% interest). Having that debt could have a detrimental effect on future relationships; defer the establishment of a household or starting a family. Choosing a school with a lower total cost is an example of planning that will enhance the parents' retirement and the ability of the child to start an independent life without the burden of significant debt.

<u>Basic Financial Planning for College Graduates</u>

Young college graduates will be faced with a number of important decisions when they land their first job. They should set realistic expectations for the lifestyle they can afford and always have one eye on the future. They can begin by asking themselves these questions:

- Once the paychecks start, will I be saving enough to build an emergency fund for unforeseen expenses or a period of unemployment?

- Do I want to save for the down payment on a home? (Have an idea of how much that could be.)

- Do I have adequate healthcare coverage, long-term disability insurance, proper levels of auto and home/renters insurance?

- Am I taking advantage of any employer matching programs to build retirement savings?

In summary, will their **future self** be happy with the financial decisions being made now? Young adults who slowly build a solid financial foundation enable their parents to save for their retirement and possibly assist other children or grandparents in need of support.

<u>Senior Planning Opportunities</u>

Parents or grandparents with low income and limited financial means can also help families reduce tax burdens and these tax savings may help a family member meet an unforeseen financial challenge. What are some ways older generations can help?

- Convert some or all of a traditional IRA to a Roth IRA over one or several years when the tax to the existing account owner is expected to be lower than the tax to be paid by eventual beneficiaries.

- The above strategy could be enhanced while both senior spouses are alive and using the joint filing status on their returns. Taxable distributions that a surviving spouse is required to receive could be subject to a higher tax rate later than they would have been on a joint return.

- Are there any EE U.S. Savings Bonds held that have stopped earning interest? At maturity, all deferred interest is taxable whether or not the bonds have been redeemed. Cashing in such bonds now at the lower rate of the owner(s) will be less expensive than having the deferred interest taxable to the next generation.

- Are there opportunities to gift assets that have appreciated in value over their cost, like stocks or mutual funds, to a more senior generation? This could allow the assets to get a step-up in tax basis when inherited. Any contemplated transfers need to be carefully planned with a financial advisor and an estate planning attorney.

- It is seldom a wise decision to change the ownership of a residence from a parent to a child. If the goal is to minimize the assets of the parent to qualify for Medicaid, no steps should be taken without expert legal and financial guidance. A transfer of the home from a parent to one or more children more often results in negative tax consequences for the children. Assuming that the home has appreciated over time, a sale by the parent would protect up to $250,000 of gain. A sale while both parents were alive could protect $500,000. A sale of a home acquired through a lifetime gift of a parent and not used by the child as his or her residence for the required number of years would subject the entire gain on sale to tax. Appreciated property, like the family home, sold after the owner's death would receive a step-up in tax basis to the value at death. A subsequent sale at or below that value would avoid income tax.

Our newsletters are used to communicate important financial and investment considerations. We understand that it is often more effective to have one-on-one personal meetings or calls to discuss any specific question or concern.

We continue to work daily to earn your trust and confidence.

Best Regards,

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