



TACONIC VIEWS

Financial Insights for Secure Retirements and Life's Transitions

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You Can Still Work with a Fiduciary Advisor

By David Gardner, CFP®, EA
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For years, financial service firms have been preparing for the day when they would need to serve as fiduciaries when giving guidance on your retirement accounts.

After many delays, the Department of Labor's fiduciary rule was scheduled to take effect June 2017 with that rule actually being enforced starting January 2018. For now, the DoL will focus on providing "compliance assistance" to financial advisors who are not accustomed to being held to such a high standard. The delay also gives time for those fighting the fiduciary rule to advocate for a more lax standard.

Many investors have been following the ups and downs of the fiduciary rule and wondering what these developments mean for their access to independent financial advice.

So what is the fiduciary standard and why should you care? In short, the fiduciary standard means financial advisors must put their clients' best interest first and must disclose real or potential conflicts of interest. It's similar to the standard doctors have with patients or attorneys and accountants have with their clients.

Supporters of the fiduciary standard think it's a vital step in making financial planning a true profession rather than a minefield, of unregulated euphemisms such as "wealth advisor" or "financial counselor."

Currently most people who offer financial advice are held to a much lower standard, called the suitability standard.

The difference between fiduciary and suitability may

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Reverse Mortgages – No Longer a Loan of Last Resort

By Jared Hoole, CFP®, MS
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When most of us hear the term "reverse mortgage" there is usually a negative connotation associated with the phrase. It's hard to pinpoint why these two words leave such a sour taste in our mouths when you consider that most of us don't even know anyone with a reverse mortgage. Furthermore, when pressed on the issue of why reverse mortgages are bad, the response is often; "Ummm, I don't know. I just heard they were bad because they take advantage of senior citizens." Perhaps you are subconsciously hearing Henry Winkler's smooth cadence from the reverse mortgage TV commercial while thinking of a poor widow from Nebraska who just lost her family home.

The truth of the matter is, due to some recent legislative changes to protect the consumer, a reverse mortgage is no longer a loan of last resort. In fact, in the right circumstances, it can be a very effective financial planning tool to preserve your wealth.

What is a Reverse Mortgage?

A reverse mortgage is a home loan that allows you to continue owning your home without having to make monthly mortgage payments. Instead, the interest on the loan is added each month to the loan balance. Then, the loan balance is paid in one lump sum when the borrower moves out, sells the home, or passes away.

One popular myth is that the bank can kick you out of your home if the reverse mortgage balance exceeds the

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Transitions...

Financial Planning for Life's Transitions

MoneySkills for College Freshmen

By Karin E. McKarahan, CFP®, MBA
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Congratulations to the high school graduating class of 2017! You've survived four years of academics (including perhaps rigorous Advanced Placement classes), participated in sports and clubs, earned required community service hours, and navigated the social scene of high school. You made it through the SAT and/or ACT tests and the college search process, culminating in acceptances and deciding which college or university you will attend.

Basic money management was probably not covered in your high school curriculum; however, following these steps could give you an edge in successfully transitioning from high school to independent life as a college student:

1. You probably have a **checking and/or savings account**; make sure you know how to balance it each month and use your bank's phone app and website. A debit card attached to your checking account is a great way to manage your monthly spending. Talk with your parents about how you will get funds from them, if applicable, and how often they will reload your checking account.
2. Use a **personal finance/spending app to track your spending** and manage your checking account (there are many available). Learn how to use it this summer, before you pack up and head to college.
3. Consider opening an account at a bank close to the college to **avoid out-of-network ATM fees**.
4. Discuss which expenses your parents will pay for and those that will be your responsibility. Use a spending plan (aka budget) to avoid running out of money.
5. **Learn to distinguish between wants** (daily Starbucks, late night pizza) **versus needs** (meal plan, laundry, transportation to and from school, books) and ways to reduce impulse purchases that will wreck your spending plan.
6. **Avoid signing up for the credit cards offered to you on campus**. Using credit to fund purchases is not the way to start your lifetime journey towards financial independence.
7. **Investigate alternatives to buying new textbooks**, such as rentals, using online books and buying used. Consider waiting until the first day of class to buy books as some may not actually be required by the professor.
8. Research and select the **cell phone and data plan** that meets your needs at the lowest cost.
9. Learn how to **spend smart using coupons, Groupon's and student discounts** offered by businesses located near campus.
10. **Understand how financial aid works: grants, loans, work study, and scholarships. This only touches on a huge topic but avoid getting into a lot of debt for your undergraduate education.** Your family's ACP advisor can delve into greater detail regarding how to finance your education.
11. **Confirm if any Advanced Placement classes and community college classes you took as a high school student can be credited towards your college degree requirements**, thus saving both time and money.
12. **Know or learn how to do laundry, basic housekeeping, and meal prep/food shopping** if you will be living off-campus.

value of the home. This is simply not true. As long as you live in the home, keep it insured, pay taxes, and maintain the property, the bank can never force you to move out or sell the home.

Another common misconception is that your family could get stuck with a big mortgage debt when you pass away. If you have a reverse mortgage, at your passing, your family has two options. They can either purchase the home, for 95% of the appraised value or the reverse mortgage balance (whichever is lower), or sell the home. If they choose to sell and the home sells for more than the reverse mortgage balance, they keep any remaining equity. Conversely, if the mortgage debt is more than the sale price, they can walk away without owing a nickel. The Federal Housing Authority (FHA) Mortgage Insurance Fund guarantees that your family can never be liable for any amount over the value of the home.

Why Should You Consider a Reverse Mortgage?

The use of home equity in a retirement-income plan is becoming a popular tool used by financial advisors due to the flexibility and protection it affords clients. For most Americans, their home is their largest asset, yet under a traditional model the accessibility to this asset is nonexistent.

Integrating a reverse mortgage into a financial plan may allow clients to tap into their biggest asset that otherwise has been hiding under their nose. Wade Pfau, Professor of Retirement Income at the American College of Financial Services, states; “the reverse-mortgage option should be viewed as a method for responsible retirees to create liquidity from an otherwise illiquid asset, which in turn can create new options that potentially support a more efficient retirement income strategy.” Integrating a reverse mortgage into a retirement plan can be a great option for seniors who want accessibility to the equity in their home and the comfort of knowing they can age in place.

Are You Eligible?

In order to be eligible for a reverse mortgage the borrower(s) must be of sound mind, at least 62 years of age, and have equity in the home. They must have financial resources to cover taxes, insurance, and

maintenance costs. They cannot owe any Federal debt and any existing mortgages on the property must be paid off (which can be done with the loan proceeds). Lastly, educational sessions with an FHA approved counselor must be completed. In order for the property to be eligible it must serve as your primary residence, meet FHA property standards and flood requirements, pass an FHA appraisal, and be maintained to meet FHA health and safety standards.

What Now?

With the Reverse Mortgage Stabilization Act of 2013, many safeguards were put in place to protect borrowers from taking on too much debt. However, as with any other loan, there are risks involved. “Unquestionably there can be misuses of the product. But the problem is the use, not the product” says Harold Evensky, Professor of Personal Financial Planning at Texas Tech University.

Since reverse mortgages do come with higher costs than a traditional home loan, it’s critical to understand the complexities of the loan and how to best integrate it into your financial plan. Speaking with a CERTIFIED FINANCIAL PLANNER™ and/or FHA approved counselor would be a good start to finding out if you could benefit from a reverse mortgage.



seem like industry inside baseball, but it's a yawning gap.

While fiduciaries must put your interests first, the suitability standard means that whatever recommendations your advisor gives you merely need to be "suitable" for someone in your situation. The advice does not need to be in your best interest.

I've seen the remnants of "suitable" advice. It ranges from excellent, thoughtful planning to marginally legal behavior, such as selling expensive annuities to clients in their 80s.

Most everyone offering financial advice through insurance sales, bank and credit union wealth departments, or brokerage firms are not fiduciary advisors in all of their dealings with clients. The fiduciary standard will change their obligation when advising on clients' retirement accounts.

Even though the rules may be changed, some traditional financial services firms will continue in their efforts to move toward a fiduciary standard regardless of whether there are rules in place to force them to do so.

But what should you do if you want a fiduciary financial advisor and don't want to wait for a strong fiduciary rule to be enforced? You can ask your current advisor if they always act as fiduciaries when working with you.

Also, there are financial advisors who have been fiduciaries for decades, although they are hard to find because they don't sponsor golf tournaments or the Final Four. These are mostly smaller firms sometimes with just a single fiduciary advisor on staff.

The best way to find fiduciary advisors is through one of their national organizations. Of course, all members of the Alliance of Comprehensive Planners (ACP) (acplanners.org) are fiduciary, fee-only financial advisors. Most ACP members also belong to the National Association of Personal Financial Advisors (napfa.org), which has more than 2,400 members nationwide. Its members are fiduciaries, Certified Financial Planners™ and they do not accept commissions.

In the interest of full disclosure, I am a member of both of these organizations and have served on the board of one of them. I don't think fiduciary advisors have a monopoly on sound financial advice, but I do look forward to the time when you can go to a financial advisor and know they have a professional education, experience, and accept a fiduciary duty.

Until our industry reaches that level of professionalism, you have to work a little harder to understand the background, training, incentives, and legal duty of your financial advisor.

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wisdom as our country was being born. We would do well to heed his words today as they are as relevant now as when he first spoke them.

I often caution my readers that though far from the most important thing, still, money matters. I believe that Franklin had a similar thought in mind when he observed, "There are three faithful friends in our life: an old wife, an old dog, and ready money."

Ben Franklin's Words to the Wise...

By Michael Ryan, CFP®, MBA
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Benjamin Franklin was born in Boston on January 17, 1706, the 10th son of a soap maker. For the next 84 years he lived one of the most remarkable and productive lives of any American ever. He gained prominence as an author, an inventor, a political theorist, a scientist, a statesman, and a diplomat. He was one of America's first truly wealthy citizens, and he is well described as one of our country's founding fathers. Some have even referred to him as the "First American." Few in our history have played such a prominent role in the affairs of their day. His intellect was boundless, and his interests were many and varied. He shares his wit and intelligence with us today through his writings and the sayings and witty aphorisms he published in his "Poor Richard's Almanac."

I think just about everything we need to know to be financially successful today we can learn from a man who lived over 200 years ago. Consider some of Franklin's sage advice with me, and I think you will agree.

He was a strong proponent of public education: 1) An investment in knowledge pays the best interest. 2) By failing to prepare, you are preparing to fail.

He understood that risk played a role in investing: 3) Nothing ventured, nothing gained. 4) Vessels large may venture more, but little boats should stay near shore.

He understood the role time plays in investing: 5) Time is money. 6) He who can have patience can have what he will.

He was a strong proponent of thrift and the importance of saving: 7) For age and want save while you may; no morning sun lasts a whole day. 8) Beware of little expenses; a small leak will sink a great ship.

He understood the importance of personal responsibility and hard work: 9) Motivation is when your dreams put on work clothes. 10) There are two

means to increase your wealth. Increase your means or decrease your wants. The best is to do both at the same time. 11) Diligence is the mother of good luck.

He understood the limitations of wealth and the limited role it plays in the life of the truly successful person.

12) Money has never made man happy, nor will it; there is nothing in its nature to produce happiness. The more of it one has, the more one wants. 13) Great beauty, great strength, and great riches are really and truly of no great use; a right heart exceeds all. 14) Don't judge a man's wealth or godliness by their Sunday appearance. 15) Wealth is not his that has it, but his that enjoys it. Success has ruined many a man.

Even in that chauvinistic age, Ben recognized the role of a good woman: 16) A good wife and health is a man's best wealth!

Ben Franklin made these observations on the potential problems a democracy could face over 200 years ago. His warnings seem eerily loud, clear, and pertinent for us today: 17) When the people find that they can vote themselves money that will herald the end of the republic. 18) The U.S. Constitution only guarantees the American people the right to pursue happiness. You have to catch it yourself.

These are only a tiny sampling of Franklin's financial wisdom, but with these few pearls you now know about all you need to know to be financially successful. Franklin says that we should educate ourselves, be willing to take some risk, and have the patience to let time work its magic. We should be willing to work hard; be industrious as he would say, and don't expect others (or the government) to do for us what we can do for ourselves. He cautioned us to keep money in perspective and recognize that it should not be an end unto itself, but simply a tool for doing good. He warned us that money by itself will never make us happy, and we see the evidence of that all around us.

Benjamin Franklin is one of my favorite historical characters. His genius was well-recognized in his time, and he achieved fame, wealth, and the respect of his peers. We are fortunate that he was there to share his

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