Precision Monthly

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SUMMER PLANNING CHECKLIST

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CERTIFIED FINANCIAL PLANNER™

It's the season. Newly minted "adults" going off to college or starting careers. You may have noticed, while they are now "adults," your parenting role has not ended. However, your right to access financial records and make medical decisions ends at age 18 in New Jersey and New York. What is a parent to do? Consider a Durable Power of Attorney and a Living Will/Medical Directive.

While your children may not have accumulated sufficient assets to begin thinking about comprehensive estate planning, the absence of these two key documents could unnecessarily complicate your family's life if your child becomes ill, incapacitated, or is simply living abroad.

Once a child reaches age 18 (the legal age of majority in most, but not all US states), the law considers them an adult. As hard as it may be for a parent to accept, this means you no longer have the legal authority to make financial, legal, or medical decisions on your child's behalf.

For example, the federal law known as HIPAA (Health Insurance Portability and Accountability Act) protects private medical information and only allows disclosure to be made to an authorized representative. Doctors and hospitals cannot automatically release medical information to parents without the proper authorization granted in a Living Will/Medical Directive. In addition, if a child becomes incapacitated and her parents do not have a valid Durable Power of Attorney, the parents cannot legally manage the child's financial and legal affairs without going to court to be appointed legal guardians. In less dire circumstances, you may use the Durable Power of Attorney to help manage the child's finances while they are studying abroad or learning how to manage their own finances.

Durable Power of Attorney – The child names one or more parents (the "Attorney-in-Fact") with authority to make financial decisions for the child, either at any time or if the child cannot do so for him/herself.

Living Will/Medical Directive – The child decides what type of medical care they want and names a parent (the "Health Care Representative") to have the ability to access their medical records and make medical decisions.

If your children have recently become adults, we encourage you to speak with your estate attorney to discuss putting in place suitable Durable Powers of Attorney and Medical Directives to assist them in the event of an accident or illness.

August 2019

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Key Estate Planning Documents

There are four key estate planning documents almost everyone should have regardless of age, health, or wealth: a durable power of attorney, advance medical directives, a will, and a letter of instruction.

Estate planning is the process of managing and preserving your assets while you are alive, and conserving and controlling their distribution after your death. There are four key estate planning documents almost everyone should have regardless of age, health, or wealth. They are: a durable power of attorney, advance medical directives, a will, and a letter of instruction.

Durable power of attorney

Incapacity can happen to anyone at any time, but your risk generally increases as you grow older. You have to consider what would happen if, for example, you were unable to make decisions or conduct your own affairs. Failing to plan may mean a court would have to appoint a guardian, and the guardian might make decisions that would be different from what you would have wanted.

A durable power of attorney (DPOA) enables you to authorize a family member or other trusted individual to make financial decisions or transact business on your behalf, even if you become incapacitated. The designated individual can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

There are two types of DPOAs: (1) an immediate DPOA, which is effective at once (this may be appropriate, for example, if you face a serious operation or illness), and (2) a springing DPOA, which is not effective unless you become incapacitated.

Advance medical directives

Advance medical directives let others know what forms of medical treatment you prefer and enable you to designate someone to make medical decisions for you in the event you can't express your own wishes. If you don't have an advance medical directive, health-care providers could use unwanted treatments and procedures to prolong your life at any cost.

There are three types of advance medical directives. Each state allows only a certain type (or types). You may find that one, two, or all three types are necessary to carry out all of your wishes for medical treatment.

- A living will is a document that specifies the types of medical treatment you would want, or not want, under particular circumstances. In most states, a living will takes effect only under certain circumstances, such as a terminal illness or injury. Generally, one can be used only to decline medical treatment that "serves only to postpone the moment of death."
- A health-care proxy lets one or more family members or other trusted individuals make medical decisions for you. You decide how much power your representative will or won't have.
- A do-not-resuscitate (DNR) order is a legal form, signed by both you and your doctor, that gives health-care professionals permission to carry out your wishes.

Will

A will is quite often the cornerstone of an estate plan. It is a formal, legal document that directs how your property is to be distributed when you die. If you don't leave a will, disbursements will be made according to state law, which might not be what you would want.

There are a couple of other important purposes for a will. It allows you to name an executor to carry out your wishes, as specified in the will, and a guardian for your minor children.

The will should be written, signed by you, and witnessed.

Most wills have to be probated. The will is filed with the probate court. The executor collects assets, pays debts and taxes owed, and distributes any remaining property to the rightful heirs. The rules vary from state to state, but in some states smaller estates are exempt from probate or qualify for an expedited process.

Letter of instruction

A letter of instruction is an informal, nonlegal document that generally accompanies your will and is used to express your personal thoughts and directions regarding what is in the will (or about other things, such as your burial wishes or where to locate other documents). This can be the most helpful document you leave for your family members and your executor.

Unlike your will, a letter of instruction remains private. Therefore, it is an opportunity to say the things you would rather not make public.

A letter of instruction is not a substitute for a will. Any directions you include in the letter are only suggestions and are not binding. The people to whom you address the letter may follow or disregard any instructions.

Take steps now

Life is unpredictable. So take steps now, while you can, to have the proper documents in place to ensure that your wishes are carried out.

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What's New in the College World?

If you're the parent or grandparent of a current or prospective college student, you might be interested to learn what's new in the world of higher education.

Higher college costs

For the 2018-2019 school year, average costs for tuition, fees, room, and board were:

- $21,370 at public colleges (in-state)
- $37,430 at public colleges (out-of-state)
- $48,510 at private colleges

The following table shows the average annual percent increase for tuition, fees, room, and board since 2015.[1] Despite steady cuts to their budgets from state legislatures, public colleges have been doing a better job of holding down cost increases than private colleges.

	Public In-State	Public Out-of-State	Private
2015-16	3.3%	3.5%	3.5%
2016-17	2.7%	3.4%	3.4%
2017-18	3.1%	3.2%	3.5%
2018-19	2.8%	2.6%	3.2%

Assuming a 3% across-the-board increase, average costs for 2019-2020 would be:

- $22,011 at public colleges (in-state)
- $38,552 at public colleges (out-of-state)
- $49,965 at private colleges

Keep in mind that these figures are averages; many colleges cost substantially more. And these figures don't include costs for books, supplies, personal expenses, or transportation, which can add on a few thousand dollars. If you're a parent and cost is a factor when looking at colleges, you need to take the lead in the conversation because most 16-, 17-, and 18-year-olds are not financially savvy enough to drive a $100,000 or $200,000 decision.

Higher student debt

Speaking of costs, about 65% of U.S. college seniors who graduated in 2017 had student loan debt, owing an average of $28,650.[2] And it's not just students who are borrowing. Parents are borrowing, too. There are approximately 15 million student loan borrowers age 40 and older, and this demographic accounts for almost 40% of all student loan debt.[3] Student loan debt is now the second-highest consumer debt category after mortgage debt, ahead of both credit cards and auto loans.[4]

Reduced asset protection allowance

Behind the scenes, a stealth change in the federal government's financial aid formula has been quietly (and negatively) impacting families. The asset protection allowance, which lets parents shield a certain amount of their non-retirement assets from consideration, has been steadily declining for years, resulting in a higher expected family contribution, or EFC. Ten years ago, in the 2008-2009 school year, the asset protection allowance for a 48-year-old married parent was $46,700. In 2018-2019, that same allowance was $21,300, resulting in a $1,432 decrease in a student's aid eligibility ($25,400 x 5.64%, the federal contribution percentage required from parent assets).[5]

FAFSA timeline

The FAFSA (Free Application for Federal Student Aid) for the 2020-2021 school year can be filed starting October 1, 2019, and relies on information in your 2018 federal income tax return.

Proposed 529 plan changes

In April 2019, the House Ways and Means Committee passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which focuses primarily on changes to retirement plans but also includes the expansion of 529 plans.[6] Under the proposed legislation, 529 plan qualified expenses would be expanded to include:

- Apprenticeship programs
- Up to $10,000 (lifetime cap) toward student loan repayment

The legislation has broad bipartisan support, so look for progress in 2019.

Recent college admissions scandal

Finally, a little perspective. The recent college admissions scandal has put a spotlight on the frenzy surrounding elite college admissions and perpetuates the notion that a child's attendance at a particular school is a make-or-break, life-defining moment. But families shouldn't buy into this narrative. Reach for the best schools? Sure, if that's important to you and your child. Think your child's life is over if he or she doesn't get into one of these schools? No. Many colleges provide an excellent education, and it's up to students to make the most of the opportunities available wherever they land.

Sources

[1] College Board, Trends in College Pricing, 2015-2018

[2] The Institute for College Access and Success, Student Debt and the Class of 2017, September 2018

[3] Federal Reserve Bank of New York, Student Loan Data and Demographics, September 2018

[4] Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, August 2018

[5] U.S. Department of Education, EFC Formula, 2008-2009, 2018-2019

[6] savingforcollege.com, April 12, 2019

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What are the warning signs of financial scams targeting older individuals?

If you or someone you know has been targeted by a scam artist who is trying to steal money or personal information, you're not alone. According to the Senate Special Committee on Aging, older Americans lose an estimated $2.9 billion annually to fraud and exploitation, a number that is probably substantially underreported.[1]

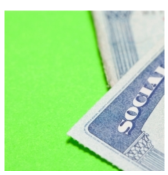
Most scams start with a call, an email, a text, or an official-looking letter that appears to be from a government agency or a legitimate company. Sometimes the scam artist will go door-to-door soliciting business or donations to charity.

Scam artists are very good at gaining the trust of well-meaning people by convincingly impersonating someone authoritative, knowledgeable, or trustworthy — such as an IRS agent, a tech repair person, or even a relative. They play on your sympathy or make convincing threats to pressure you to go along with a scam. "Send money or provide personal information right now," they say, "if you want to help someone or prevent something bad from happening." Here are some typical scenarios.

- **IRS scam:** "You owe back taxes and penalties. Send payment immediately via a wire transfer, or you will be arrested."
- **Sweepstakes scam:** "Congratulations, you've won a prize! To collect it, provide us with your bank account number so we can deposit a check."
- **Grandparent scam:** "Hi Grandma, it's me. Don't you recognize my voice? I've been in an accident and need money for car repairs. Send gift cards, and don't tell anyone because I'm embarrassed."
- **Home repair scam:** "I was just doing some work down the street for your neighbor, Bob, and I saw that you need some shingles replaced. I can do that for half the price I usually charge if you pay me in cash today."

If you are targeted, never give out personal information or send money. You don't need to make a quick decision. Call a friend, a relative, or the police for advice. Report the scam immediately to a fraud hotline such as the Senate Committee's toll-free hotline, (855) 303-9470.

[1] U.S Senate Special Committee on Aging, 2019



How can you avoid falling for the Social Security imposter scam?

The scam generally starts like this. You answer a call or retrieve a voicemail message that tells you to "press 1" to speak to a government "support representative" for help in reactivating your Social Security number. The number on your caller ID looks real, so you respond. The "agent" you reach tells you that your Social Security number has been suspended due to suspicious activity or because it has been involved in a crime.

You're worried. You know how important it is to keep your Social Security number safe. So when the caller asks you to confirm this number to reactivate it, or says your bank account is about to be seized but the Social Security Administration (SSA) can safeguard it if you put your money on gift cards and provide the codes, you don't know what to do. If you balk, you may be reminded that if you don't act quickly, your accounts will be seized or frozen.

Although none of this is true (the SSA will never threaten to seize benefits or suspend numbers), many people have fallen for the Social Security imposter scam, and the numbers are rising. According to the Federal Trade Commission (FTC), more than 76,000 reports of the Social Security imposter scam were filed between April 2018 and March 2019. Reported losses during this period were $19 million, and almost half of the reports were filed in February and March 2019.[1]

Here are some tips directly from the FTC to help you avoid becoming a victim.

Do not trust caller ID. Scam calls may show up on caller ID as the Social Security Administration and look like the agency's real number.

Don't give the caller your Social Security number or other personal information. If you already did, visit IdentityTheft.gov/SSA to find out what steps you can take to protect your credit and your identity.

Check with the real Social Security Administration. The SSA will not contact you out of the blue. But you can call the agency directly at (800) 772-1213 to find out if the SSA is really trying to reach you and why. (You can trust this number if you call it yourself.)

[1] FTC Consumer Protection Data Spotlight, April 2019

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