Personal Financial Review

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It's Your Money—Who Decides

HOW YOUR CHARITABLE $$ WILL BE SPENT?

When you give $100 to your favorite charity, you are probably not overly concerned about how your donation is spent, as long as it advances the mission of the charity. On the other hand, if you are making a large donation, it is more likely that you have specific goals in mind, whether to fund a particular program or support another endeavor. This desire to specify exactly where your donation dollars will go may jeopardize your ability to claim an income tax deduction. Therefore, proper planning is essential.

If you want more control over how your donation is used, consider either **donor advised funds** or **private foundations**. Let's take a closer look at these two options.

Donor Advised Funds

Many larger public charities, particularly those that support a variety of different charitable activities and organizations, offer donor advised funds. This type of charitable giving vehicle is based upon an agreement between the donor and the charity stating that the charity will consider the donor's wishes with respect to the ultimate use of the donated funds. However, the agreement is non-binding, and the charity will exercise final control over the disposition of the funds, consistent with the organization's mission.

Private Foundations

A private foundation is a nonprofit organization that typically has been created via a single donation from an individual or a business, and whose funds and programs are managed by its own trustees or directors. Through the choice of directors or trustees, the donor has greater control over the specific use of funds, rather than relying on a public charity.

Private foundations generally fit into two categories: private operating foundations and private non-operating foundations. Private operating foundations actually run the charitable activities or organizations they fund, while private non-operating foundations simply disburse funds to other charitable organizations. A private foundation can also serve as a "family enterprise," whereby

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members of the family can work together in supporting charitable causes over the long term.

However, the benefit of increased donor control through the use of a private foundation may come at a price. The following rules are designed to ensure that private foundations serve charitable interests and not private interests:

- Private foundations are generally required to pay out for charitable causes at least 5% of their asset value annually or be subject to a penalty.
- Substantial penalties are imposed on transactions between the foundation and its donors or managers, although payment of reasonable salaries is permitted.
- Private foundations are generally prohibited from benefiting a private individual.
- A private foundation is responsible for ensuring that the funds it distributes to a private charity are expended properly. (Schools, hospitals, and churches are examples of public charities, to which this does not apply.)
- An excise tax of up to 2% of investment income is imposed annually on investments.
- There are restrictions on the types of investments made by private foundations.

The deductibility of contributions to private foundations is more limited than for contributions to public charities. Depending upon whether cash or property is being donated, deductions to private foundations are limited to 20% to 30% of adjusted gross income, whereas deductions to public charities have higher limits of 30% to 50%. Finally, the administrative and legal costs of creating and managing a private foundation need to be considered.

Depending on the circumstances, a private foundation may allow for greater control over how your charitable donation is spent. It can be highly rewarding to be involved in charitable endeavors, however, be sure to consult your tax and legal professionals for specific guidance. **20/20**

Retirement Savers Advised to Plan FOR MEDICAL EXPENSES

Since Medicare and private insurance plans seldom fully cover the costs of medical care for retirees, individuals and couples planning for retirement should factor in the costs of medical care in determining the amount they need to save, a study on health expenses in retirement published by the Employee Benefit Research Institute (EBRI) recommended.

The study, “Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as $370,000, Up from $350,000 in 2016,” was published in the December 20, 2017, issue of EBRI Notes. The article examined the amount of savings Medicare beneficiaries are projected to need to cover program premiums, deductibles, and certain other health expenses in retirement. Specifically, the study looked at the projected costs associated with premiums for Medicare Parts B and D, premiums for Medigap Plan F, and out-of-pocket spending for outpatient prescription drugs.

The data used in the analysis came from a variety of sources, including the 2017 Medicare trustees report. The data were entered into a Monte Carlo simulation model that simulated 100,000 observations, allowing for the uncertainty related to individual mortality and rates of return on assets in retirement.

The results showed that in 2017, a 65-year-old man needs $73,000 in savings and a 65-year-old woman needs $95,000 in savings if the goal is to have a 50% chance of having enough savings to cover premiums and median prescription drug expenses in retirement. If, however, the goal is to have a 90% chance of having enough savings to cover these costs, the man needs to save $131,000 and the woman needs to save $147,000.

The findings further indicated that in 2017, a 65-year-old couple with median prescription drug expenses need $169,000 in savings to meet the goal of having a 50% chance of having enough savings to cover health care expenses in retirement. If, however, the couple aim to have a 90% chance of having enough savings to cover these expenses, they need savings of $273,000.

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In addition, the study found that a 65-year-old couple with drug expenses at the 90th percentile throughout retirement, and who want to have a 90% chance of having enough money for health care expenses, need to have $368,000 in savings.

The study also looked at shifts in savings targets in recent years. The findings indicated that projected savings targets increased between 1% and 6% from 2016 to 2017, after decreasing from 2011 to 2014 and then increasing from 2014 to 2016. The authors pointed out that despite the increase in savings targets since 2014, the 2017 savings targets were lower than the savings targets in 2012 almost across the board.

In addition, the authors emphasized that many workers should be saving more for health expenses than the amounts cited in this report, as the analysis did not factor in the total savings needed to cover long-term care expenses and other health expenses not covered by Medicare, or the fact that many individuals retire before becoming eligible for Medicare. The researchers also observed, however, that workers may need to save less than the estimated amounts if they choose to work past age 65 and continue to receive health benefits as active workers, thereby postponing enrollment in Medicare Parts B and D. **20/20**

Your Family Business AND ESTATE PLANNING

If you are like most entrepreneurs, you don't expect the business you worked so hard to establish to falter when you are no longer here to run it. But sometimes, when business owners die without leaving wills or estate plans, the business must be liquidated to pay the tax liability, or the company collapses because family members have not been sufficiently prepared to take over operations. If you own a family business, you may want to consider taking steps *now* to help ensure this valuable asset will remain intact for your children, grandchildren, and others.

Business Succession Planning

Business owners often fail to establish formal succession plans because broaching the subject can be unpleasant. Grooming a family member for succession can be equally challenging due to conflicting personal and professional relationships. In some cases, business owners may feel pressured by long-standing sibling rivalries or family disputes.

As difficult as business succession planning may be, the consequences of not establishing a continuation strategy may be even more costly. Here are some suggestions for developing a formal succession plan strategy:

- Appoint a successor to take over as head of the company while you are still involved in the business, so that he or she can learn the business from you. Provide your successor with the mentoring and education needed to do the job, but also the opportunity to develop an individual leadership style.
- Consider your options for transferring business interests in, and control of, the company to the next generation, such as making gifts of ownership interest, selling stock to your successors, setting up a stock redemption deal, or even starting a new business for your children.
- Prepare now to minimize the tax liability of your estate upon your death. Keep in mind that future changes in the tax laws will likely be of concern to your heirs. It is essential that you seek qualified professional advice on how best to plan your estate.
- Draw up a buy–sell agreement that clarifies to whom, and at what value, your business should be sold in the event of your death. This agreement should be funded, usually with a life insurance policy, savings, or a loan.

Business continuation can be a complicated and emotional experience for business owners. A dual strategy of open and honest communication with family members and guidance from a team of estate planning professionals may help maintain the success of your business and preserve your family's business ownership. **20/20**

Unpaid Student Loans May Result in DOCKED SOCIAL SECURITY CHECKS

When an individual ceases making payments toward his or her student loan, the loan falls into default. The consequences of someone defaulting on a student loan can be severe and include damage to his or her credit report, the inability to build savings or apply for other loans, and wage garnishment. Many retirees have discovered that defaulting on Federal student loans can result in their Social Security benefits being docked.

The Consequences

According to Debt.org (January 2018), Americans owe $1.4 trillion in student loans, which is significantly more than credit card debt or car loans. The student loan delinquency rate is 11.2%. Federal student loans account for approximately 85% of all student-loan debt; private student loans make up the rest. However, private lenders can garnish wages only—they do not have the authority to dock Social Security benefits.

The Federal government is withholding a portion of Social Security benefits from recipients who have fallen behind on their Federal student loans. According to the most recent report from the Treasury Department, while there were only 6 such cases in 2000, by 2007 there were 60,000 cases, and in the first seven months of 2012, approximately 115,000 individuals had their Social Security checks docked due to unpaid Federal student loans.

Although the amount of money the government withholds from Social Security varies, it can be as much as 15%. Supposing an individual receives a monthly Social Security benefit of $1,000, he or she could have as much as $180 docked from each check, which can be significant for retirees on a fixed budget.

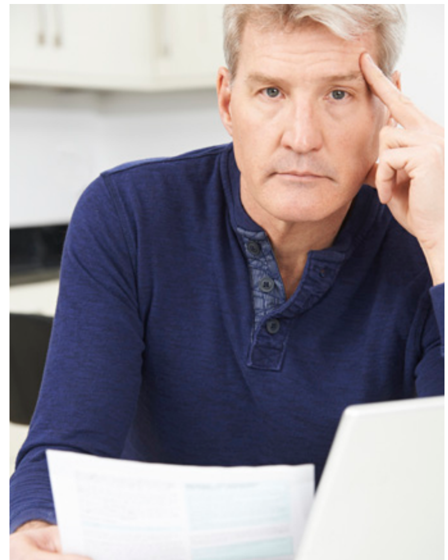
While some retirees may still be carrying debt from the student loans they took out in their youth, others relied on Federal loans when they returned to college or went to graduate school for a mid-life career change. In many instances, the debt retirees are now carrying was not for their own education, but to help their children, grandchildren, or other dependents fund an education.

Loan Balance Collection

The Department of Education provides Federal student loans to students and provides payment plans to accommodate borrowers who fall behind. It would take nearly two years of non-payment before an account is sent to a collection agency. If the collection agency fails to collect the money, the loan balance is transferred to the Treasury Department, which has the power to garnish Social Security checks. The Treasury Department generally sets up payment plans with borrowers on two separate occasions before dipping into their Social Security checks. However, the Treasury does not withhold money from monthly Social Security checks totaling $750 or less.

The Aftermath

A variety of extenuating circumstances can lead to student loan default, such as an uncertain economic climate coupled with the rising cost of college tuition. As a result, students in all age groups are incurring more debt than previous generations. Nontraditional



students, along with their college-enrolled dependents, may equally have trouble finding jobs after graduation.

If you are considering student loans for yourself or a family member, think carefully before you sign on the dotted line. Remember, unlike other types of debt, student loans cannot be discharged by declaring bankruptcy. It can quickly become a burden for even the most financially responsible Americans, and you could be paying student loan debt down well into your retirement years. **20/20**