Financial Services Advisory
GROW WISER®

Third Quarter 2015 www.FSAinvest.com (800) 235-4567

Seeking Financial Aid: Don't Fear The FAFSA

Saving money to pay for college is a daunting proposition even if you're reasonably well off financially. With tuition increases continuing to outpace the overall inflation rate year after year, parents may be hard pressed to come up with all of the funds needed to finance a child's higher education. But financial aid could help fill the gap.

Each year, more than 13 million undergraduate and graduate students get some form of financial assistance. But the federal government and universities won't simply hand you the money. To determine whether you qualify for financial aid, you must complete and file the Free Application for Federal Student Aid (FAFSA).

Who should fill out a FAFSA? Practically everyone. Even if you don't think you'll qualify for financial aid, there's no harm in trying because the filing is free. And even students from the wealthiest families may need to submit a FAFSA if they're going to be in a work-study program.

But just because you should file a FAFSA doesn't mean you won't be intimidated by the process itself. Although the form has been simplified somewhat in recent years, it still can be challenging.

Starting the Process

Virtually every college admission program requires a FAFSA for financial aid purposes. While a school may ask for other financial information in addition to that sought in the FAFSA, the basis form is pretty much mandatory.

And so you'll have to come up with answers to about 130 questions about your family assets and income. Based on the information you provide, the FAFSA administrators will calculate the "expected family contribution" (EFC) for your family. How many people are in your household, your family income, the number of students in college, and most assets (but not retirement funds) will be factored in.

Where can you find the FAFSA? It's available online all year long at www.fafsa.ed.gov. But you can't file it until January 1 of the year in which a student plans to start college (for example, January 1, 2016, for someone starting school on September 1, 2016). But be sure to file the form as early as possible because financial aid often is awarded on a first-come, first-served basis. Late filers may miss the bus and receive nothing.

To fill out the form, you'll need income and expense data from the prior year, including:

- Taxable income for both the parents and the student, including wages, pensions, capital gains, interest,

(Continued on page 4)

FAFSA
How it's Calculated

- FAFSA is based on two major factors:
  - Cost of Attendance (COA)
  - Expected Family Contributions (EFC)
- COA – EFC = financial need
  - Financial need determines how much Need-Based Aid a student is eligible for
  - Non-Need Based Aid subtracts already awarded financial aid (e.g. scholarships or grants) from COA

Based on information provided by https://studentaid.ed.gov/fafsa/next-steps/how-calculated

Congratulations Are In Order!

At FSA, each team member is encouraged to continue to learn and grow both personally and professionally. This is often done through continuing education classes, obtaining additional certifications or designations, or meeting a goal they have set for themselves. One of the newest members of our team, Justin Wood, was hired by FSA a little over a year ago as an Investment Analyst. Some of his responsibilities include researching our mutual funds and ETFs, doing general market research and trading. Justin recently received the **Chartered Financial Analyst® designation!** To obtain this designation, he had to pass a series of three tests covering a broad range of investment topics, concentrating in research and portfolio management. The designation takes a minimum of three years to attain and requires work experience as well as a component that focuses on ethics. It is a grueling series of exams and we are thrilled he was able to pass the three tests and receive his charter! Now he'll be able to enjoy 'Ole Miss football without another exam hanging over his head. Well done, Justin!

Kim Scott, CFP®
Financial Advisor

4 Estate Issues For Business Owners

Estate planning is essential for almost everyone, but it's especially important if you own a business. Your company may account for the majority of what you leave to your heirs. And while you may be years away from retirement, it's far better to get started sooner rather than later. Consider these factors that you may need to address in your estate plan:

1. **Succession plan.** This can have a ripple effect on other aspects of your estate planning. Do you plan to sell the business to an outsider, or perhaps to hand the reins to a member of your family? If you're grooming a family member for the top spot, it's a good idea to make that clear to everyone involved. Similarly, if power within the company is to be shared among several family members, spell out how that will work. Establish how much control you may want to keep, and make sure you document the arrangement so there won't be misunderstandings.

2. **Buy-sell agreement.** A buy-sell agreement may work hand in hand with a succession plan. A buy-sell agreement is a contract between a company's co-owners or shareholders specifying what will happen if a principal dies or is disabled. The main benefit is that such an agreement establishes a value for the business, which may be helpful for various purposes—for example, if someone wants to buy or sell shares from or to another co-owner.

3. **Estate taxes.** The specter of potential tax consequences often lurks in the background for small businesses. Even with the generous federal estate tax exemption ($5.43 million in 2015), your heirs may face tax complications, especially on the state level. Because most businesses have a minimum of cash on hand to pay estate taxes, the company might have to be sold to satisfy federal or state obligations. Estate tax returns are generally due within nine months of death, so make provisions now to avoid a distress sale in the future. And find out what tax breaks could benefit the estate—for instance, a federal tax law provision that allows deferral of estate tax payments when a business interest comprises at least 35% of a taxable estate.

4. **Life insurance.** One way to avoid a forced sale of a business is to secure adequate life insurance protection for the owner or co-owners. Proceeds from a life insurance policy can be used to pay estate taxes, debts, or other business obligations when an owner dies. Life insurance also may be an essential part of a buy-sell agreement. Depending on your needs, you might choose a form of whole life insurance, term insurance, or another variation.

To avoid problems down the line, consider all of the estate planning implications of owning your business. We will be glad to talk with you based on your personal circumstances. ●

8 Smart Moves For College Grads

Have you or one of your kids recently graduated from college? There's a lot to look forward to—a first job, maybe marriage and family and financial success. But college graduates can't assume that good things will happen automatically. Here are eight moves to make as soon as the ink on the diploma dries:

1. **Get organized.** Put your house in order by collecting vital papers such as your Social Security card, passport, and any investment documents and insurance policies. For optimal protection, store papers you don't need regularly in a bank safe deposit box or another secure location.

2. **Start paying down debt.** If you've borrowed money while earning your degree, chip away at your liability. The top priority is to wipe out credit card debt, on which you're likely paying a sky-high interest rate. What about student loans? Often those interest rates are low and much of your repayment will make a dent in the principal.

3. **Devise a monthly spending plan.** Once you have a firm grasp on both your monthly income and expenses—rent, car payments, and the like—create a budget. The goal is to be in the black, spending less than you earn, with some savings to spare, but allocate funds for entertainment, too.

4. **Open bank accounts.** If you don't already have them, set up checking and savings accounts at a local bank. But don't overdo things with your new debit card. And be careful with credit cards—using them can help establish your credit history but be sure pay off the credit cards each month.

5. **Look to invest.** Now that you have an income, think about how to use some of it to earn more money. For starters, open a brokerage account with a reputable firm. At this early stage in your life, you generally can afford to be relatively aggressive with your

IRS Zeroes In On The Dirty Dozen Tax Scams

Each year, the IRS provides a list of what it calls a "dirty dozen" tax scams. But in 2015, instead of simply announcing the list, the tax agency issued press releases on each scam. Here's a rundown on this year's top offenders:

1. **Phone scams.** This is traditionally near the top of the list and often proliferates during tax-filing season. Typically, someone will alter a caller ID number in order to make it look like it's the IRS on the phone. Then the scammer is likely to threaten dire consequences if the victim doesn't immediately provide financial information and access to bank accounts.

2. **Phishing.** In a similar approach, criminals try to lure in victims through fake emails or websites and then gain access to personal information that's used to commit identity or financial theft. The IRS never initiates contact by phone or email, so don't be fooled into giving a caller your personal information.

3. **Identity theft.** Scammers may try to steal your Social Security number so they can file a fraudulent tax return claiming a tax refund. The IRS says it is continuing to step up its methods for identifying false returns and expanding partnerships with financial institutions to identity and stop bogus refunds.

4. **Tax return preparer fraud.** While the vast majority of tax return preparers are honest, there are still some people out there who may try to goad you into bad decisions to their benefit. To protect yourself from unscrupulous preparers, look for recommendations from friends or for advisors in your area who have a good reputation.

5. **Unreported offshore accounts.** A common tax dodge is to hide income via offshore bank or brokerage accounts or nominee entities and then use debit or credit cards or wire transfers to tap the funds. In a similar scam, taxpayers may use foreign trusts, employee-leasing schemes, private annuities, or insurance plans for the same purpose. The IRS is ramping up efforts to thwart these schemes.

6. **Inflated refund claims.** Some scam artists pose as tax preparers during tax return season. They lure in people by promising outlandish federal tax refunds, then collect big fees and disappear.

7. **False charities.** After major disasters, scammers may impersonate charities to pry money or private information from the concerned public. Sometimes these thieves will reach out by telephone or email to solicit money or financial information. Or they might contact disaster victims directly and claim to be working for the IRS.

8. **False 1099s and W-2s.** Filing a phony information return, such as a Form 1099 or W-2, may reduce your tax liability. Some criminals provide self-prepared, corrected, or fake forms that improperly report taxable income as zero. Another approach is to submit a statement rebutting wages and taxes reported by a third-party payer to the IRS.

9. **Abusive tax shelters.** These range from relatively simple structuring of abusive domestic and foreign trust arrangements to sophisticated strategies based on foreign financial secrecy laws. Although a trust may be used for legitimate estate- and tax-planning purposes, the IRS could challenge questionable transactions.

10. **False income.** Some people may falsify income reported on their tax returns to claim refundable credits, such as the earned income tax credit, and sometimes their tax preparers are in on the scam. Violators could be punished by having to pay restitution, interest, and penalties and might face criminal prosecution.

11. **Excessive claims for fuel credits.** The fuel tax credit generally is limited to off-highway business use or use in farming. Yet while it isn't available to most taxpayers, some fraudulently claim the credit to inflate their refunds.

12. **Frivolous tax arguments.** The IRS and the courts may dismiss certain claims as being frivolous and a waste of time and money. See the 2015 version of "The Truth about Frivolous Tax Arguments" provided to taxpayers. One illegitimate approach is to refuse to pay taxes on religious or moral grounds by invoking the First Amendment. ●

investment choices, because you'll have time to overcome temporary losses. But keep in mind your personal tolerance for investment risk.

6. **Create a "rainy day" fund.** It's impossible to anticipate all of the expenses you'll incur during the next few years. Try to set aside something extra in case of emergencies. For instance, you might face a layoff or an unexpected medical or dental bill. Have enough savings on hand to carry you through for a few months.

7. **Think about retirement.** That's not a misprint. Although you're still decades from calling it quits, the sooner you start saving for retirement, the better. Take advantage of company plans such as a 401(k) (especially if your company matches contributions) and consider supplementing your savings with an IRA.

8. **Obtain financial guidance.** Fortunately, you don't have to do it all on your own. We can provide assistance based on your personal circumstances. Don't hesitate to contact our office for more details. ●

Top Court Mandates 401(k) Fee Duty

Are you being charged more than you should be for management fees in your 401(k) account? The U.S. Supreme Court thinks you might be. In a landmark ruling, the nation's top court says employers have a continuing duty to monitor the fees paid by participants in 401(k) plans (Tibble v. Edison International, S. Ct. No. 13-550, 5/21/15). And whereas the court often is divided along political lines, in this instance it came to a unanimous conclusion.

The ruling relates to the obligations of employers under the Employee Retirement Income Security Act (ERISA). ERISA provides numerous protections to 401(k) plan participants, and it requires employers to meet fiduciary standards, putting the interests of plan participants ahead of their own. Now the Supreme Court has extended those duties in one key respect.

For employees, 401(k) plans have long come with significant drawbacks, including an inability to negotiate lower fees affecting their account assets. And while ERISA and other laws ensure that workers are informed about fees and other rules relating to the operation and administration of their plans, such notifications may be buried deep in a stack of documents that participants don't have the time or inclination to wade through. And so employees usually just accept the status quo.

Some workers at Edison International, a California-based electric power company, decided to do something about this situation. They brought a class-action lawsuit alleging that they were being charged unnecessarily higher fees in their 401(k) accounts. These employees had to choose exclusively from several retail mutual funds in their 401(k) plans, rather than being able to opt for institutional mutual funds. Typically, retail funds carry higher management fees than institutional funds.

For example, a retail fund might charge a 1% fee on assets compared with just 0.25% for an institutional fund. Although this may seem like small potatoes now, it can add up over time, costing participants tens of thousands of dollars, especially if they are years away from retirement.

A lower court had sided with the plaintiffs, with some exceptions, and the Supreme Court upheld the obligations for all claims made by the employees. As a result, employers now may be sued if they fail to continue to monitor mutual funds in 401(k) accounts to look for unnecessarily high fees.

The case will affect employers and employees alike. Employers may have to modify procedures for administering plans while employees are likely to have broader investment options. Remember, though, that as important as mutual fund fees are, they're not the only consideration when choosing an investment option. ●

Don't Fear The FAFSA

(Continued from page 1)

dividends, annuities, unemployment compensation, alimony, rents, and business income

- Non-taxable income for both the parents and the student, including workers' compensation, welfare benefits (but not food stamps), housing and food allowances, child support, untaxed Social Security benefits, untaxed income from pensions and annuities, veterans' benefits, tax-exempt interest income, deductible payments made to a retirement plan, and earned income tax credit
- Expenses such as income taxes and child support
- The value of cash, savings, and checking accounts of the parents and the student
- The net worth of all investments of parents and student (except for retirement plans), including stocks, bonds, CDs, money market funds, mutual funds, commodities, trust funds, education IRAs, and state-based college savings plans (excluding pre-paid tuition plans)
- The value of estate holdings (e.g., rental property and second homes), but you don't have to count the equity in your principal residence
- The net worth of a family business or farm (excluding farms that are principal residences)

The Expected Family Contribution (EFC)

The EFC is the amount your family is expected to contribute to your student's college education for one year. The lower the EFC, the larger the financial aid award that your student may receive.

Sometimes the EFC rules can work in your favor. If your student is admitted to a school that agrees to meet students' full financial needs, the EFC lets you know the most you'll have to pay regardless of how much that college costs.

Suppose that a family's EFC is $25,000 and the student is applying to a school with a total cost of $35,000 a year. That family might expect to receive up to $10,000 in financial aid. What if the college costs $50,000? The financial aid award could be as high as $25,000. The basic equation to remember is: Cost - EFC = Need.

Filing a FAFSA is a necessary evil for those seeking financial aid for college. We're happy to help with questions you may have and direct you to someone that specializes in maximizing financial aid, if needed. ●