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College Choices Are Being Reshaped By Recession

At a time when getting into college has become more competitive than ever, the nation's economic crisis is making it harder for students and their parents to pay tuition and obtain financial aid. Those trends are affecting students' choices of where to apply and how many applications to send, and there are more hard choices to be made when admission letters arrive.

Families at all income levels, beset by job layoffs and mortgage woes, are trying to make college plans despite persistent economic uncertainties. At the same time, investment losses have forced many universities to cut back on scholarships and other aid. Rising numbers of private lenders, including such giants as Bank of America and Wachovia Bank, are pulling out of the student loan market, and lenders that remain have tightened requirements and raised interest rates and fees. And though government-backed loans carry lower interest rates, that pool of funds is limited.

Meanwhile, many households are cutting back on savings for college, and the value of education accounts has taken a hit. According to Morningstar Inc., all 79 of the tax-advantaged 529 college savings plans it tracks lost value in 2008, with most falling 10% or more. Another potential source of funds to pay for college—home equity loans or lines of credit—is also becoming more difficult to tap, according to Dennis Nostrand, vice president of enrollment management at the University of New Haven in Connecticut. "The value of homes has dropped, and banks are being extremely cautious in making home equity loans," says Nostrand.

David Hawkins, director of public policy for the National Association for College Admission Counseling, agrees that the economic slowdown is making it more difficult for families to plan for college. "They just don't know what to expect," Hawkins says. "We see students and parents attempting to hedge their bets by filling out more applications, a trend that has further fueled the increasing competition."

The average student today applies to five to seven schools, and some apply to 10 or more, Hawkins says. A generation ago, students typically applied to just two or three. "State colleges, which tend to cost much less than private institutions, are reporting higher-than-expected application numbers," says Hawkins. "Students and families are including state colleges in their application lists in larger numbers than in the past."

For example, Clemson University, a state school in South Carolina, has seen a 10% increase in in-state applications, and applications are up 18% this year at both the University of Idaho and the University of Central Florida. Binghamton University in New York, however, may take the prize, posting a 50% surge in applications for classes in fall 2009.

Another factor boosting the level of competition is steady growth during the past 15 years in annual numbers of high school graduates. That trend is expected to peak in 2009, when some 2.9 million teens will finish high school.

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Tax Time Is Right Around The Corner

Hard to believe Punxsutawney Phil didn't see his shadow, but tax season is right on schedule. Time to put your life on hold and start sorting though the pile of tax data!

The deadline is actually April 18 this year, assuming you don't need to file for an extension. But to avoid scrambling, now is a good time to gather all the W-2s, 1099s, K-1s, receipts, expense reports, and other documentation to either upload into your tax software or deliver to your preparer.

In this issue, we've included a range of articles that focus on topics that nearly everyone faces during their lifetime:

Kids. How to identify a child with special needs and take advantage of certain tax-efficient trusts.

College. Finding the best balance between cost, public vs. private, and location can be a challenge, especially on the heels of a recession.

Asset Protection. There are ways to protect your assets in the event you are caught up in a lawsuit.

Relocating. Want to get away? Learn which states are most tax-friendly.

Giving Up Control. At some point, it's time to hand over the keys to your finances. Read about how to protect yourself and your loved ones in case you become disabled.

If these topics raise any questions for you, please don't hesitate to give us a call.

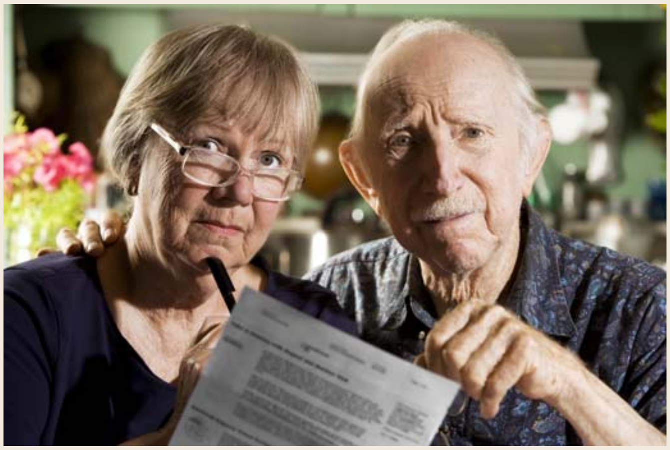
Happy Spring, whenever it arrives!
Jim Joseph, CFP®
Vice President

Giving Up Control Over Your Finances

What are your estate planning goals? Chances are, you'd like to maintain control over your assets while you're alive, but you also want to devise a plan that will protect your loved ones if you become disabled. And you intend for your wealth to be distributed when, how, and to whom you want. Finally, you'd like to minimize erosion from federal and state estate and gift taxes.

In other words, you'd like to have your cake and eat it, too. It's possible, but only if you decide to relinquish some control over your financial affairs. And that is often easier said than done. What's difficult is that it's likely to be someone else, not you, who will notice you're beginning to slip a bit. But this is a sensitive issue, and even if your relatives realize that you need help with your finances, they may put off saying anything for years.

To avoid that situation, you may need to establish a system now that won't put any single person on the spot. One solution advocated by Rick Randall, president of the National Network of Estate Planning Attorneys, is to create a "disability panel" with one or more medical professionals along with family members and a financial advisor. The group would observe you and decide when it's time to transfer ownership of assets to a trust or other parties. In some cases, a relative you've given power of attorney might need to initiate legal proceedings to gain control over the assets.



It's crucial to have a doctor involved, Randall says, to provide an expert opinion not only about your current health and cognitive status but also to project that into the future. Family members also play an essential role. They are the ones closest to your situation, and they can help determine when your medical condition and mental health may be deteriorating. And you can choose people you trust to take a compassionate, measured approach. Knowing you've selected these team members may help you accept their judgment even when it goes against your own feelings.

How control will be transferred also needs to be settled well ahead of time, as part of your overall estate planning. And with estate laws currently up in the air, plans and documents may have to be revisited periodically to make sure they conform to the latest laws and strategies. Various kinds of tax-favored trusts are likely to be part of the equation, and you'll probably need to grant a durable power of attorney to someone you trust to act on your behalf.

Though looking ahead to the day when you'll pass the torch is never easy, the benefits can be enormous, and it's important to broach the subject with family members well before your health and competence become issues. We can work with you to establish a plan that meets your needs. ●

Planning For A Child With Special Needs

The daily demands of caring for a child with autism or another developmental disability are daunting enough without worrying about future care. That may be why, in a recent survey, 62% of parents with disabled children said they hadn't established a plan for what would happen when the parents were no longer around. Moreover, about half of the surveyed parents said they planned to leave assets directly to the child, and 58% expected to designate the child as a beneficiary. Those decisions could make the child ineligible to receive public assistance, which could be crucial for the child's long-term welfare.

A better approach may be to create a "special needs trust" that can be funded now or through your will. (The money often comes from life insurance death benefits.) Structured correctly, this irrevocable trust will enable a special needs child to receive public assistance benefits while the trust covers other expenses—including for travel, recreation, and rehabilitation—that aren't fully paid for by government funds.

If the trust assets are used as a primary means of support, the disabled child may be disqualified from public assistance, just as would happen if the child received a direct bequest. To avoid problems, a special needs trust will have an independent trustee who controls distribution of trust assets but uses the money only to supplement government aid. A provision in the trust will typically prevent the trustee from using assets for "support, maintenance, welfare, and education" of the child.

Keep in mind, however, that laws governing trust language and operation may vary from state to state. In some states, for example, assets that remain in the trust after the disabled child's death must be

Asset Protection For Desperate Times

Even in the best of times, people with significant assets may find themselves on the wrong end of a lawsuit. Most physicians, for example, will be sued for malpractice at least once during their careers, and they pay high premiums for liability insurance, which may not cover the entire exposure. Other professionals and business owners also are frequently dragged into court, and adverse judgments may put family assets at risk.

But if the wealthy are targets of lawsuits even when the economy is strong, they're all the more vulnerable these days, when financial desperation may motivate people to take a legal shot at anyone for any reason. And if a judge or jury sides with the plaintiff, a defendant could lose business interests, investments, or other property.

In some states, the simple act of purchasing life insurance and annuities can help to protect assets. But whatever strategy you follow, you need to act before there's a problem. If you're already being pursued by creditors or embroiled in a lawsuit, the courts may disregard moves to shield your property.

Consider these possible asset-protection strategies and vehicles.

Transferring property. One simple way to protect assets is to give them away. You can transfer as much property as you like to your spouse (if a U.S. citizen) free of estate or gift tax, and under the annual gift tax exclusion, you can also make gifts of up to $13,000 a year to anyone else. Moreover, you're entitled to a lifetime, cumulative gift tax exemption of $5 million. But making property gifts means relinquishing control, and spousal transfers may create estate tax complications.

Forming a corporation. If your fortune is tied to business interests, a traditional method for avoiding personal liability is to establish a C corporation. In the absence of fraud, you normally won't be liable for corporate debts, but you also aren't necessarily protected against professional liability if you are a professional. The personal liability protection of a C corporation is not impregnable, however, as the courts have increasingly allowed persistent plaintiffs to "pierce the corporate veil" and reach a defendant's personal assets.

Other corporate variations, such as S corporations and limited liability companies (LLCs), offer protections similar to those of a C corporation, and those alternative business structures may give you tax advantages. Generally, a C corporation is taxed twice—the business pays income tax, and then you're taxed on the dividend you receive—whereas S corporation shareholders and LLC members get only a single tax bill. The LLC format, compared with the older S corporation, has fewer restrictions, but may have higher taxes in some states.

Owning assets jointly. Another long-standing asset protection strategy is to title property as joint tenants with your spouse or another family member. If assets are owned by "joint tenants with rights of survivorship" (JTWROS), they automatically pass to the survivor upon the other owner's death. A special type of co-ownership only between a husband and wife, known as "tenancy by the entirety" (TBE), may protect assets from creditors. More than half the states now recognize TBE protections.

In the nine community property states, on the other hand, property acquired during a marriage is generally treated as being owned by both spouses, regardless of how it is titled, and could be accessible to creditors of either spouse.

Domestic trusts. Various kinds of trusts created within the United States can help shield assets from creditors. For example, you could establish a "spendthrift trust" for a child. Normally, that involves transferring control of trust assets to a designated trustee, who will manage the trust. Creditors can't touch the assets before the beneficiary actually receives a distribution. The maximum protection is obtained with a discretionary trust which does not require distributions to be made at any particular time.

Self-settled trusts. A self-settled trust is one you form for your own benefit—you're the beneficiary as well as the grantor. Currently, 11 states allow you to establish self-settled trusts to protect assets from future creditors. To qualify, the trust must generally adhere to the laws of the state, have a trustee resident in such state, and be irrevocable.

Foreign trusts. A foreign or "offshore" trust can be a legitimate means for protecting assets by subjecting the property to the more lenient laws of a foreign jurisdiction. But foreign trusts also have disadvantages, including tax reporting requirements, lack of tax benefits, and concerns about trustees.

Devising an effective asset-protection plan is often complex and subject to crucial missteps. We can work with you and your attorney to create a plan that provides effective legal protections. ●

used to pay back the government for public assistance benefits. But that provision doesn't limit the trust's ability to help a living child.

A special needs trust, like any other estate planning vehicle, needs to be part of an overall estate plan. One wrinkle here is that money you move into this kind of trust doesn't qualify for the annual gift tax exclusion ($13,000 in 2011) that otherwise limits tax liability on yearly gifts to individuals. Because of restrictions in the trust language of special needs trusts, transfers are classified as gifts of "future interest." That means parents who fund such a trust during their lifetimes will need to use all or part of their $5 million lifetime gift tax exclusion. As a result, asset transfers to other children may be more costly.

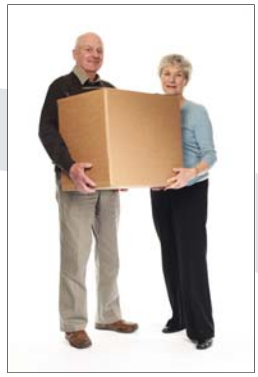
Good advice from experienced experts can make sure your special needs trust accomplishes its goals without shortchanging other family members. We can work with your attorney to help you establish a trust that protects everyone's interests. ●

Retiree Relocation: Tax-Friendly States

Are you thinking about pulling up stakes when you retire? You may want to move to a state with warm temperatures and lots of sunshine, but there's also another kind of climate to consider—the tax climate. State taxes as well as federal levies can take a big bite out of retirement income, and some states devour decidedly more than others do. Here are several factors to take into account.

State income taxes. Seven states—Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming—have no state income tax, and New Hampshire and Tennessee tax only investment dividend income that exceeds specified limits. However, many other states and the District of Columbia provide tax breaks for retirees, so you shouldn't automatically assume a no-tax state will be the best choice.

Retirement income. Most states that normally tax income provide partial exemptions for pensions. Even better, 10 states fully exempt income received from federal, state, or military pensions. And in Pennsylvania and Mississippi, all retirement income, including distributions from 401(k)s and IRAs, is state tax-free. Some other states impose high income tax rates on retirement income, however, with California leading the way at 9.55% on income of less than $1 million.



Social Security benefits. Up to 85% of the Social Security benefits you receive may be subject to federal income tax. However, the seven no-tax states, 27 others, and Washington, D.C. don't tax Social Security, though other special rules may apply. For instance, in Colorado, New Mexico, and Utah, you must add back a portion of Social Security benefits not taxed on a federal level when determining your eligibility for certain state income tax breaks.

Sales tax. These levies are often overlooked when retirees contemplate a move. On the plus side, five states—Alaska, Delaware, Montana, New Hampshire, and Oregon—currently have no sales tax, and other states may exempt food, medicine, and other necessities. But California has an 8.25% rate, and many cities and counties pile on additional sales tax charges. In Chicago and Los Angeles, you'll pay a combined rate of 9.75%—the nation's highest. And things could get worse. In 2009, 649 U.S. cities imposed new sales taxes or increased existing rates, while only 192 reduced sales tax rates (Source: Vertex Inc.).

Property taxes. The property tax burden varies widely throughout the country and even within states. The five states with the lowest median property taxes are Louisiana, Alabama, West Virginia, Mississippi, and Arkansas, while New Jersey, New Hampshire, Connecticut, New York, and Rhode Island have the highest.

Of course, tax rates aren't likely to be your only reason for choosing a particular retirement location. But it can't hurt to factor in these very real costs when planning your move. ●

Reshaping College Choices

(Continued from page 1)

Students today have about a 70% chance of acceptance into a four-year college, according to Hawkins. Ivy League schools are among the most competitive, with some accepting fewer than one in 10 applicants, while a wide range of top-tier universities admits fewer than half of those who apply. Many very selective private colleges, despite their much higher costs, are also seeing application numbers rise. Private institutions often have more scholarship opportunities, some of which are not available through public schools.

In this intensely competitive environment, more parents are hiring educational consultants, sometimes when their children are only high school freshmen or sophomores, to help guide them through the application process. Yet while applications are surging at many colleges, pushing down the chance of being accepted, the economic crisis means universities often don't have the institutional dollars they once could use to convince admitted students to matriculate. "In the spring, when admission and financial aid letters go out, students and families are really going to have to take a close look at each school's combination of scholarships, grants, and loans," Hawkins says. "There is going to be some serious comparison shopping."

	Private Four-Year	Public Four-Year In-State	Public Four-Year Out-of-State	Public Two-Year	For-Profit
Average 2008-2009 Tuition and Fees	$25,143	$6,585	$17,452	$2,402	$13,046
One-Year Dollar Increase	$1,398	$394	$866	$108	$557
One-Year Percentage Increase	5.9%	6.4%	5.2%	4.7%	4.5%
One-Year Percentage Increase After Inflation	0.3%	0.7%	-0.4%	-0.8	-1.1%
Average Grant Aid and Tax Benefits per Student	$10,200	$3,700		$2,300	N/A

Source: The College Board

As you and your children formulate their college admissions strategies, we can help you explore ways to pay tuition and costs that won't undercut your own retirement planning. Please give us a call.●

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