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Welcome Summer

Summer is finally here and the warm temperatures are upon us. We hope you have some fun summer travel plans to visit new or favorite places, friends or family. In this newsletter, you'll find articles of interest and information on happenings with Keystone Financial Partners this coming fall.

First Women Only Workshop in Series a Success!
Jim developed a new series of workshops focused on topics of interest specifically for women. These workshops are for our women clients and their female friends. It includes a 30-minute presentation with information to empower women in their financial lives, followed by a lunch and further discussion of these issues.

We hosted our first WOW event in May and had a great turnout of our female clients, their family and friends. The topic was well received and sparked an interactive and engaging discussion among the attendees.

Our next WOW events in this series are:
Wed, Sept 10 : Topic: Why Women Face Unique Investment Challenges
Thurs, Nov 13 : Topic: TBD

Women are taking increasing responsibility in their long-term goals and financial health. Jim will discuss the unique challenges that women face. Please let us know if you are interested in attending our next WOW events this fall. Contact Tami Hollingsworth at tami@keystonefinancialpartners.com or 919-463-0018.

Photo Gallery on our Web Site
We recently added a new section to our web site, an online photo gallery. Jim is an avid amateur photographer and enjoys taking landscape photographs. This gallery contains pictures that Jim has taken on trips and vacations across the country. We also have a photo gallery from client events and our office. Be sure to check it out!

Fire Drill Financial Planning Presentation
Jim continues to give his talk on Fire Drill Financial Planning to local area civic & church groups, senior centers and associations. Jim reveals some of the most common mistakes that people make when planning their estate and transfer of assets and how to avoid them. Jim also discusses the major challenges widows face when they lose their spouse, which can be more easily overcome through proper communication and advanced planning.

If you are a member of a group that would benefit from this presentation, please contact us. We'd be happy to schedule a time for Jim to be a guest speaker at one of your group meetings.

Second Opinion Service
When you receive a serious diagnosis from your doctor, you often get a "second opinion". Why not do the same for your financial plan? Recent studies of the affluent show that 9 out of 10 investors would welcome a "second opinion" on their investments and 8 out of 10 investors would switch advisors if they knew of a better alternative. For this reason, we offer a free second opinion service to friends and family of our valued clients. If you know of someone that you think we should meet, please mention our free second opinion service to them. We thank you for your introductions.

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Summer 2014

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Some Things to Consider about Gifts to Children

Financial Choices: College, Retirement, or Both?

What is an assisted-living facility, and how do I choose one?

Some Things to Consider about Gifts to Children

If you have property that would produce a loss if sold, you should consider selling the property, claiming the loss, and transferring the proceeds to the child, rather than transferring the property to the child who would not be able to claim the loss.

If you make significant gifts to your children or someone else's children, or if someone else makes gifts to your children, there are a number of things for you to consider.

Transfers that are not taxable gifts

There are a variety of ways for you to make transfers to children that are not treated as taxable gifts for gift tax purposes. Filing a gift tax return is generally required if you make gifts (other than qualified transfers) totaling more than $14,000 to an individual during the year.

- **Providing support.** When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. This may provide a large umbrella for parents of minor children, college-age children, boomerang children, and special needs children.
- **Annual exclusion gifts.** You can generally make gifts of up to $14,000 per child gift tax free each year. If you split gifts with your spouse, the amount is effectively increased to $28,000. In the case of a gift to a qualified tuition program (529 plan) for a child, the annual exclusion can be effectively increased to five times the above amounts (i.e., to $70,000, or $140,000 if you split gifts with your spouse).
- **Qualified transfers for medical expenses.** You can make unlimited gifts for medical care gift tax free, provided the gift is made directly to the medical care provider.
- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition gift tax free, provided the gift is made directly to the educational provider.

The same exceptions for transfers that are not taxable gifts generally apply for purposes of the generation-skipping transfer (GST) tax. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

Income tax issues

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

- **Income for support.** Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.
- **Kiddie tax.** Children subject to the kiddie tax are generally taxed at their parents' tax rate on any unearned income over a certain amount. For 2014, this amount is $2,000 (the first $1,000 is tax free and the next $1,000 is taxed at the child's rate). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support. If the child's income would be taxed at the parents' high tax rates, it may make sense to invest in ways that can produce nontaxable income (e.g., tax-exempt bonds) or defer taxation (e.g., Series EE bonds) until after the kiddie tax period.
- **Basis.** When you make a gift, the person receiving the gift generally takes an income tax basis equal to your basis in the gift. (This is often referred to as a "carryover" or "transferred" basis.) The carried-over basis is increased--but not above fair market value (FMV)--by any gift tax paid that is attributable to appreciation in value of the gift (appreciation is equal to the excess of FMV over your basis in the gift immediately before the gift). The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. However, for purpose of determining loss on a subsequent sale, the carried-over basis cannot exceed the FMV of the property at the time of the gift.

Gifts to minors

Outright gifts should generally be avoided for any significant gifts to minors. In that case, you may wish to consider a custodial gift or a trust for a minor.

- **Custodial gifts.** Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers to Minors Acts. The custodian holds the property for the benefit of the minor, generally until an age (often 21) specified by state statute. Generally, any adult or trust company can be the custodian, but check state law.
- **Trust for minor.** A Section 2503(c) trust is a trust specifically designed to obtain the gift tax annual exclusion for gifts to a minor. Principal and income can be distributed to the minor before age 21, but there is no requirement of any distribution to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21.

Consult a tax professional for more information about your specific situation.

Financial Choices: College, Retirement, or Both?

A juggling act

It's the paramount financial conflict many families face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.

Note

**All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.*

Life is full of choices. Should you watch *Breaking Bad* or *Modern Family?* Eat leftovers for dinner or order out? Exercise before work or after? Some choices, though, are much more significant. Here is one such financial dilemma for parents.

Should you save for retirement or college?

It's the paramount financial conflict many parents face, especially as more couples start having children later in life. Should you save for college or retirement? The pressure is fierce on both sides.

Over the past 20 years, college costs have grown roughly 4% to 6% each year--generally double the rate of inflation and typical salary increases--with the price for four years at an average private college now hitting $192,876, and a whopping $262,917 at the most expensive private colleges. Even public colleges, whose costs a generation ago could be covered mostly by student summer jobs and some parental scrimping, now total about $100,000 for four years (Source: College Board's Trends in College Pricing 2013 and assumed 5% annual college inflation). Many parents have more than one child, adding to the strain. Yet without a college degree, many jobs and career paths are off limits.

On the other side, the pressure to save for retirement is intense. Longer life expectancies, disappearing pensions, and the uncertainty of Social Security's long-term fiscal health make it critical to build the biggest nest egg you can during your working years. In order to maintain your current standard of living in retirement, a general guideline is to accumulate enough savings to replace 60% to 90% of your current income in retirement--a sum that could equal hundreds of thousands of dollars or more. And with retirements that can last 20 to 30 years or longer, it's essential to factor in inflation, which can take a big bite out of your purchasing power and has averaged 2.5% per year over the past 20 years (Source: Consumer Price Index data published by the U.S. Department of Labor, 2013).

So with these two competing financial needs and often limited funds, what's a parent to do?

The prevailing wisdom

Answer: retirement should win out. Saving for retirement should be something you do no matter what. It's an investment in your future security when you'll no longer be bringing home a paycheck, and it generally should take precedence over saving for your child's college education.

It's akin to putting on your own oxygen mask first, and then securing your child's. Unless your retirement plan is to have your children be on the hook for taking care of you financially later in life, retirement funding should come first.

And yet ...

It's unrealistic to expect parents to ignore college funding altogether, and that approach really isn't smart anyway because regular contributions--even small ones--can add up over time. One possible solution is to figure out what you can afford to save each month and then split your savings, with a focus on retirement. So, for example, you might decide to allocate 85% of your savings to retirement and 15% to college, or 80/20 or 75/25, or whatever ratio works for you.

Although saving for retirement should take priority, setting aside even a small amount for college can help. For example, parents of a preschooler who save $100 per month for 15 years would have $24,609, assuming an average 4% return. Saving $200 per month in the same scenario would net $49,218.* These aren't staggering numbers, but you might be able to add to your savings over the years, and if nothing else, think of this sum as a down payment--many parents don't save the full amount before college. Rather, they try to save as much as they can, then look for other ways to help pay the bills at college time. Like what?

Loans, for one. Borrowing excessively isn't prudent, but the federal government allows undergraduate students to borrow up to $27,000 in Stafford Loans over four years--a relatively reasonable amount--and these loans come with an income-based repayment option down the road. In addition, your child can apply for merit scholarships at the colleges he or she is applying to, and may be eligible for need-based college grants. And there are other ways to lower costs--like attending State U over Private U, living at home, graduating in three years instead of four, earning credits through MOOCs (massive open online courses), working during college, or maybe not attending college right away or even at all.

In fact, last summer, a senior vice president at Google responsible for hiring practices at the company noted that 14% of some teams included people who never went to college, but who nevertheless possessed the problem solving, leadership, intellectual humility, and creative skills Google is looking for ("In Head-Hunting, Big Data May Not Be Such a Big Deal," *New York Times,* June 19, 2013). One more reason to put a check in the retirement column.

COMMONWEALTH *financial network*

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What is an assisted-living facility, and how do I choose one?

What is an assisted-living facility? The wide number of options available makes defining the term difficult. Generally, however, assisted-living facilities primarily serve senior citizens who need more help than those who live in independent living communities.

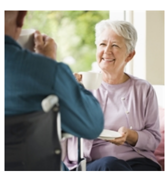
These facilities typically offer rental rooms or apartments, housekeeping services, meals, social activities, and transportation. Their primary focus is social, not medical, but some do provide limited medical care. Other terms used to describe assisted-living arrangements are board and care homes, rest homes, and community residences. Continuing care retirement communities (CCRCs), also called life care communities, fit loosely into this category as well, although they provide what other assisted-living facilities do not: long-term nursing care and guaranteed lifetime services.

How do you choose an assisted-living facility? Definitely plan on touring the facility beforehand. Some facilities are large, caring for over a thousand people. Others are small, caring for fewer than five people. Consider whether the facility meets your needs:

- Do you have enough privacy?
- How much personal care is provided? What happens if you get sick?
- Can you be asked to leave the facility if your physical or mental health deteriorates?
- Is the facility licensed or unlicensed?
- Who is in charge of health and safety?

And read the contract carefully--this may save you time and money later if any conflict over services or care arises.

As for the cost, a wide range of care is available at a wide range of prices. If you have long-term care insurance, check your policy. These contracts normally pay a specified dollar amount per day (typically $40 to $150) for certain skilled, intermediate, or custodial care in assisted-living facilities, for some specified period of time (usually two to five years). Medicare probably will not cover your expenses at these facilities, unless those expenses are health-care related and the facility is licensed to provide medical care.



My parents can't manage alone anymore. What should I do?

Are one or both of your parents having health problems, suffering mental lapses, or just slowing down with age? Do you find they can't manage on their own anymore? If so, you'll want to consider the various living arrangements that are available to older individuals. Before you begin, however, you'll want to talk to your parents and siblings.

Sometimes the best option is to have your parents move in with (or closer to) you. That way, you avoid having to use your parents' assets (or your own) to pay for a nursing home or other facility. You won't have to worry about your parents potentially receiving inadequate care from strangers. And your parents will probably appreciate the gesture of love and self-sacrifice on your part. However, the cost of feeding, clothing, and caring for your parents can be high, especially if you're forced to give up a job to be home with your parents. And don't underestimate the emotional and psychological impact.

What if your parents' care is more than you can handle? You may then wish to consider some type of assisted-living arrangement. The broad term "assisted living" encompasses a range of facilities and services designed to help seniors who can't live independently. The assistance provided may be short- or long-term and may focus on social services, medical care, or some combination of the two. Depending on your parents' conditions and needs, one or more of the following assisted-living arrangements may be worth considering:

- Nursing homes
- Assisted-living communities
- Continuing care retirement communities
- Alzheimer's/dementia care specialty facilities
- Retirement communities
- Active senior communities
- Home health care
- Hospice care
- Adult day-care services

And don't be afraid to talk to a social worker, your parents' physicians, or other professionals. They can offer you support, and recommend solutions that best meet your parents' needs.