



June 2017 Newsletter

Coastline Trust

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Four Numbers You Need to Know Now



When it comes to your finances, you might easily overlook some of the numbers that really count. Here are four to pay attention to now that might really matter in the future.

least annually to check the accuracy of the information upon which your credit score is based. You're entitled to one free copy of your credit report every 12 months from each of the three credit reporting agencies. You can get your copy by visiting annualcreditreport.com.

1. Retirement plan contribution rate

What percentage of your salary are you contributing to a retirement plan? Making automatic contributions through an employer-sponsored plan such as a 401(k) or 403(b) plan is an easy way to save for retirement, but this out-of-sight, out-of-mind approach may result in a disparity between what you need to save and what you actually are saving for retirement. Checking your contribution rate and increasing it periodically can help you stay on track toward your retirement savings goal.

Some employer retirement plans let you sign up for automatic contribution rate increases each year, which is a simple way to bump up the percentage you're saving over time. In addition, try to boost your contributions when you receive a pay raise. Consider contributing at least enough to receive the full company match (if any) that your employer offers.

2. Credit score

When you apply for credit, such as a mortgage, a car loan, or a credit card, your credit score is one of the tools used by lenders to evaluate your creditworthiness. Your score will likely factor into the approval decision and affect the terms and the interest rate you'll pay.

The most common credit score that creditors consider is a FICO® Score, a three-digit number that ranges from 300 to 850. This score is based on a mathematical formula that uses information contained in your credit report. In general, the higher your score, the lower the credit risk you pose.

Each of the three major credit reporting agencies (Equifax, Experian, and TransUnion) calculates FICO® scores using different formulas, so you may want to check your scores from all three (fees apply). It's also a good idea to get a copy of your credit report at

3. Debt-to-income ratio

Your debt-to-income ratio (DTI) is another number that lenders may use when deciding whether to offer you credit. A DTI that is too high might mean that you are overextended. Your DTI is calculated by adding up your major monthly expenses and dividing that figure by your gross monthly income. The result is expressed as a percentage. For example, if your monthly expenses total \$2,200 and your gross monthly income is \$6,800, your DTI is 32%.

Lenders decide what DTIs are acceptable, based on the type of credit. For example, mortgage lenders generally require a ratio of 36% or less for conventional mortgages and 43% or less for FHA mortgages when considering overall expenses.

Once you know your DTI, you can take steps to reduce it if necessary. For example, you may be able to pay off a low-balance loan to remove it from the calculation. You may also want to avoid taking on new debt that might negatively affect your DTI. Check with your lender if you have any questions about acceptable DTIs or what expenses are included in the calculation.

4. Net worth

One of the key big-picture numbers you should know is your net worth, a snapshot of where you stand financially. To calculate your net worth, add up your assets (what you own) and subtract your liabilities (what you owe). Once you know your net worth, you can use it as a baseline to measure financial progress.

Ideally, your net worth will grow over time as you save more and pay down debt, at least until retirement. If your net worth is stagnant or even declining, then it might be time to make some adjustments to target your financial goals, such as trimming expenses or rethinking your investment strategy.

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Student Loan Debt: It Isn't Just for Millennials

Infographic: 4 Things to Do in the 4 Years Before College

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Student Loan Debt: It Isn't Just for Millennials



The intersection of student loan debt and Social Security benefits

Since 2001, the federal government has collected about \$1.1 billion from Social Security recipients to cover unpaid federal student loans, including \$171 million in 2015 alone. During that time, the number of Americans age 50 and older who have had their Social Security benefits reduced to pay defaulted federal student loans has risen 440%.

Source: *The Wall Street Journal*, *Social Security Checks Are Being Reduced for Unpaid Student Debt*, December 20, 2016

It's no secret that today's college graduates face record amounts of debt. Approximately 68% of the graduating class of 2015 had student loan debt, with an average debt of \$30,100 per borrower — a 4% increase from 2014 graduates.¹

A student loan debt clock at finaid.org estimates current outstanding student loan debt — including both federal and private student loans — at over \$1.4 trillion. But it's not just millennials who are racking up this debt.

According to the Consumer Financial Protection Bureau (CFPB), although most student loan borrowers are young adults between the ages of 18 and 39, consumers age 60 and older are the fastest-growing segment of the student loan market.²

Rise of student debt among older Americans

Between 2005 and 2015, the number of individuals age 60 and older with student loan debt quadrupled from about 700,000 to 2.8 million. The average amount of student loan debt owed by these older borrowers also increased from \$12,100 to \$23,500 over this period.³

The reason for this trend is twofold: Borrowers are carrying their own student loan debt later in life (27% of cases), and they are taking out loans to finance their children's and grandchildren's college education (73% of cases), either directly or by co-signing a loan with the student as the primary borrower.⁴ Under the federal government's Direct Stafford Loan program, the maximum amount that undergraduate students can borrow over four years is \$27,000 — an amount that is often inadequate to meet the full cost of college. This limit causes many parents to turn to private student loans, which generally require a co-signer or co-borrower, who is then held responsible for repaying the loan along with the student, who is the primary borrower. The CFPB estimates that 57% of all individuals who are co-signers are age 55 and older.⁵

What's at stake

The increasing student loan debt burden of older Americans has serious implications for their financial security. In 2015, 37% of federal student loan borrowers age 65 and older were in default on their loans.⁶ Unfortunately for these individuals, federal student loans generally cannot be discharged in bankruptcy, and Uncle Sam can and will get its money — the government is authorized to withhold a portion of a borrower's tax refund or Social Security benefits to collect on the debt. (By contrast,

private student loan lenders cannot intercept tax refunds or Social Security benefits to collect any amounts owed to them.)

The CFPB also found that older Americans with student loans (federal or private) have saved less for retirement and often forgo necessary medical care at a higher rate than individuals without student loans.⁷ It all adds up to a tough situation for older Americans, whose income stream is typically ramping down, not up, unlike their younger counterparts.

Think before you borrow

Since the majority of older Americans are incurring student loan debt to finance a child's or grandchild's college education, how much is too much to borrow? It's different for every family, but one general guideline is that a student's overall debt shouldn't be more than his or her projected annual starting salary, which in turn often depends on the student's major and job prospects. But this is just a guideline. Many variables can impact a borrower's ability to pay back loans, and many families have been burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

A recent survey found that 57% of millennials regret how much they borrowed for college.⁸ This doesn't mean they regretted going to college or borrowing at all, but it suggests that it would be wise to carefully consider the amount of any loans you or your child take out for college. Establish a conservative borrowing amount, and then try to borrow even less.

If the numbers don't add up, students can reduce the cost of college by choosing a less expensive school, living at home or becoming a resident assistant (RA) to save on room costs, or graduating in three years instead of four.

¹ The Institute for College Access & Success, *Student Debt and the Class of 2015*, October 2016

²⁻⁷ Consumer Financial Protection Bureau, *Snapshot of Older Consumers and Student Loan Debt*, January 2017

⁸ *Journal of Financial Planning*, September 2016



Infographic: 4 Things to Do in the 4 Years Before College

College is a huge financial undertaking. With costs increasing every year and the prospect of too much student debt at the forefront of many families' minds, it's more important than ever to be an educated college consumer. Go into the planning process wisely with these four steps.

1

Take stock of your savings

A few years before you need to start paying tuition bills is a good time to look at your college savings. How much have you saved? Are you currently making monthly contributions? Can you increase them? How much will you have saved by the time your child graduates from high school?

Get familiar with financial aid...

Get an estimate of your expected family contribution (EFC) by filling out the federal government's FAFSA4caster tool at www.fafsa.ed.gov. Your EFC will depend on your family's income, assets, and household information, like the number of children you'll have in college at the same time.

2

... and net price calculators

Colleges differ in the amount of merit and need-based financial aid they offer. To get an idea of how generous a college is, run the net price calculator available on every college website to get an estimate of what your out-of-pocket costs will be at that college. This 10-minute endeavor can help you compare the cost of different colleges in an apples-to-apples way.

3

Have a frank conversation with your child about college costs

Share how much you expect to have saved and how much you will be able to contribute each year during college. When talking about loans, make sure your child knows exactly what the monthly payment will be after graduation for different loan amounts. Help your child avoid excessive borrowing.

4

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What is a funeral trust?

A funeral trust is an arrangement entered into with a provider of funeral or burial services. Prepaying funeral expenses may allow you to "lock in" costs for future funeral or burial services at an agreed-upon price. The funeral home sometimes serves as trustee (manager of trust assets), and you usually fund the trust with cash, bonds, or life insurance. A revocable funeral trust can be changed and revoked by you at any time. An irrevocable trust can't be changed or revoked, and you generally can't get your money out except to pay for funeral services.

Irrevocable funeral trusts may also help you qualify for long-term care benefits through Medicaid. For example, these trusts may be funded with assets that would otherwise be countable resources for Medicaid (i.e., included in determining Medicaid eligibility). They are often sold through insurance companies, in which case they are typically funded with life insurance. And you can fund the funeral trust right before entering the nursing home — there's no "look-back" period for these transfers, unlike the case with certain other transfers that can

cause a delay in the start of Medicaid benefits.

Another advantage of funding your trust with life insurance is that the trust will have no taxable income to report, because life insurance cash values grow tax deferred. Otherwise, income from trust assets may be taxed to you as the grantor of the trust, unless the trustee elects to treat the trust as a qualified funeral trust by filing Form 1041-QFT with the IRS, in which case trust income is taxed to the trust.

But what happens if you want to change funeral homes, or the facility you selected goes out of business? Does your irrevocable trust allow you to change beneficiaries (e.g., funeral homes)? Are trust funds protected from creditors of the funeral home? State laws regulating prepaid funeral trusts often require funeral homes to keep trust assets separate from their own business assets, keeping them safe from funeral home creditors. And most irrevocable trusts are transferable to another funeral home should the initial business fail or you change funeral homes.

There are expenses associated with the creation of a trust and the purchase of life insurance, and benefits are not guaranteed.



Should I purchase towing and rental reimbursement coverage for my car?

For many individuals, driving a car is a necessity. Whether you're driving to work or running errands on the weekend, not having your main source of transportation for even just a week or two can have a major impact on your daily routine. As a result, you'll want to make sure your transportation needs are properly covered in case your car is ever disabled or in an accident. Fortunately, in addition to standard auto insurance coverage, most insurers offer optional towing and rental reimbursement coverage for an additional cost.

You can usually purchase towing coverage for a small premium. This type of coverage will pay for any towing and labor charges (up to a specified limit) incurred when your vehicle is disabled. This coverage can be used any time your car breaks down — not just when it's in an accident. Keep in mind that the insurer usually pays only for labor performed (e.g., jump-starting a battery, changing a tire) at the location where your vehicle is disabled and does not cover actual repair work performed at a service station.

Towing coverage is convenient to have, especially if you travel a lot in your car. However, if you already have roadside assistance through another source (e.g., a road and travel plan), you may not need to purchase towing coverage.

Rental reimbursement coverage pays a set amount per day for the cost of a rental car if your car is being repaired because of an accident that is covered under your auto insurance policy (some policies also provide coverage when a vehicle is stolen). Typically, this type of coverage is limited to a certain amount per day (e.g., \$30), up to a maximum amount (e.g., \$900). For an additional premium, the daily limit can usually be increased.

Whether you need rental reimbursement coverage for your car will depend on your transportation needs. If you own two vehicles or have access to an alternative means of transportation, you may be able to get by without it. However, if your car is your main source of transportation, it may be a worthwhile purchase.