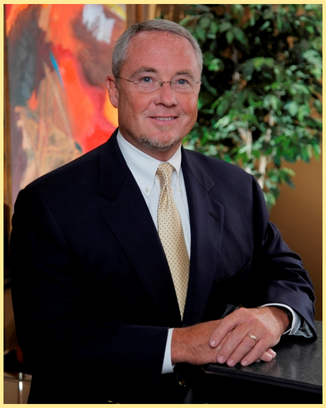


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**FROM**

**JOHN CARROLL**

I often find myself enriched by the words of many of you: our clients, prospects, and friends. We, as advisers, need to listen intently to the wisdom of those who we seek to serve. Just as our Proverb below states, that two-way earnest counsel brings a pleasant tone to our relationship that is cherished by all at Smith Capital. We hope you feel the same.

A variety of topics are covered in this month's issue, so hopefully each of you can glean some beneficial information.

**DIRECTIONS FOR LIFE**

Perfume and incense bring joy to the heart, and the pleasantness of one's friend springs from his earnest counsel.

Proverbs 28:9


**VOL. 33, NO. 6, June 2017**

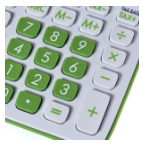



SMITH CAPITAL

# DIRECTIONS

The Investor's Guide to Financial Management

## 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.

### 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 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.

### 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.



See disclaimer on final page

# 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?

## 2

### 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.

## 3

### ... 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.

## 4

### 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.

# Tax Credits and Deductions for College

*Education tax credits and deductions can help defray some of the costs associated with college or graduate school. Do you or your child qualify for one of these federal tax benefits?*

College students and their parents need all the help they can get to pay for college. Here are four college-related federal tax benefits that might help put a few more dollars back in your pocket when you file your 2016 tax return.

## American Opportunity credit

The American Opportunity Tax Credit is worth up to $2,500 per year for a student's first four years of college. The credit applies only to qualified tuition and fees (room and board expenses aren't eligible) and is calculated as 100% of the first $2,000 of qualified tuition and fees plus 25% of the next $2,000 of such expenses.

There are two main eligibility restrictions. First, the student must be enrolled at least half-time. Second, a parent's modified adjusted gross income (MAGI) must be below a certain level. In 2016, a full tax credit is available to single filers with a MAGI of $80,000 or less and joint filers with a MAGI of $160,000 or less; a partial credit is available to single filers with a MAGI between $80,000 and $90,000 and joint filers with a MAGI between $160,000 and $180,000.

The American Opportunity credit can be claimed on behalf of multiple students on a single tax return in the same year, provided each student qualifies independently. For example, if Mom and Dad have triplets in college and each meets the credit's requirements, then Mom and Dad can claim a total credit of $7,500 ($2,500 x 3).

## Lifetime Learning credit

The Lifetime Learning credit is another education tax credit that's worth up to $2,000 per year per tax return. As its name implies, the Lifetime Learning credit is for courses taken throughout one's lifetime, whether to acquire or improve job skills. As such, it is broader than the American Opportunity credit; for example, it's available to graduate students and to students enrolled less than half-time. The Lifetime Learning credit is calculated as 20% of the first $10,000 of qualified tuition and fees (again, room and board expenses aren't eligible).

There are also income restrictions. In 2016, a full credit is available to single filers with a MAGI of $55,000 or less and joint filers with a MAGI of $111,000 or less; a partial credit is available to single filers with a MAGI between $55,000 and $65,000 and joint filers with a MAGI between $111,000 and $131,000.

One disadvantage of the Lifetime Learning credit is that it's limited to a total of $2,000 per tax return per year, regardless of the number of students who qualify in a family in a given year. So, in the example above, Mom and Dad would be able to take a total Lifetime Learning credit of $2,000, not $6,000, in 2016. Also, the American Opportunity credit and the Lifetime Learning credit can't be taken in the same year for the same student — you have to pick one or the other.

## Tuition and fees deduction

Undergraduate and graduate students (or their parents) may be able to deduct qualified tuition and fees paid in 2016. A $4,000 deduction is available to single filers with a MAGI of $65,000 or less and joint filers with a MAGI of $130,000 or less, and a $2,000 deduction is available to single filers with a MAGI between $65,000 and $80,000 and joint filers with a MAGI between $130,000 and $160,000. An important note: you can't use the same education expenses to qualify for both a tuition deduction and an education tax credit.

## Student loan interest deduction

The student loan interest deduction lets undergraduate and graduate borrowers deduct up to $2,500 of interest paid on qualified student loans during the year, provided income limits are met. In 2016, a full deduction is available to single filers with a MAGI of $65,000 or less and joint filers with a MAGI up to $130,000; a partial deduction is available for single filers with a MAGI between $65,000 and $80,000 and joint filers with a MAGI between $130,000 and $160,000.

## Comparison chart: 2016 figures

| | **Maximum Credit / Deduction** | **Income Limits for Maximum** |
|---|---|---|
| **American Opportunity credit** | $2,500 | $80,000 or less single; $160,000 or less joint filer |
| **Lifetime Learning credit** | $2,000 | $55,000 or less single; $111,000 or less joint filer |
| **Deduction for tuition and fees** | $4,000 | $65,000 or less single; $130,000 or less joint filer |
| **Deduction for student loan interest** | $2,500 | $65,000 or less single; $130,000 or less joint filer |

For more information, see IRS Publication 970, *Tax Benefits for Education.*

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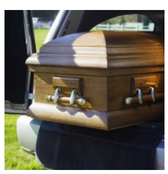

## What is a funeral trust?

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.