



CEDARPOINT

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We will be closed on Monday, July 4 in observance of Independence Day.

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Changes to Social Security Claiming Strategies

Cost of Living: Where You Live Can Affect How Rich You Feel

Estate Planning Strategies in a Low-Interest-Rate Environment

Should I loan my child money for a down payment on a house?



The Bipartisan Budget Act of 2015 included a section titled "Closure of Unintended Loopholes" that ends two Social Security claiming strategies that have become increasingly popular over the last

several years. These two strategies, known as "file and suspend" and "restricted application" for a spousal benefit, have often been used to optimize Social Security income for married couples.

If you have not yet filed for Social Security, it's important to understand how these new rules could affect your retirement strategy. Depending on your age, you may still be able to take advantage of the expiring claiming options. The changes should not affect current Social Security beneficiaries and do not apply to survivor benefits.

File and suspend

Under the previous rules, an individual who had reached full retirement age could file for retired worker benefits--typically to enable a spouse to file for spousal benefits--and then suspend his or her benefit. By doing so, the individual would earn delayed retirement credits (up to 8% annually) and claim a higher worker benefit at a later date, up to age 70. Meanwhile, his or her spouse could be receiving spousal benefits. For some married couples, especially those with dual incomes, this strategy increased their total combined lifetime benefits.

Under the new rules, which are effective as of April 30, 2016, a worker who reaches full retirement age can still file and suspend, but no one can collect benefits on the worker's earnings record during the suspension period. This strategy effectively ends the file-and-suspend strategy for couples and families.

The new rules also mean that a worker cannot later request a retroactive lump-sum payment for the entire period during which benefits were

suspended. (This previously available claiming option was helpful to someone who faced a change of circumstances, such as a serious illness.)

Tip: If you are age 66 or older before the new rules take effect, you may still be able to take advantage of the combined file-and-suspend and spousal/dependent filing strategy.

Restricted application

Under the previous rules, a married person who had reached full retirement age could file a "restricted application" for spousal benefits after the other spouse had filed for Social Security worker benefits. This allowed the individual to collect spousal benefits while earning delayed retirement credits on his or her own work record. In combination with the file-and-suspend option, this enabled both spouses to earn delayed retirement credits while one spouse received a spousal benefit, a type of "double dipping" that was not intended by the original legislation.

Under the new rules, an individual eligible for both a spousal benefit and a worker benefit will be "deemed" to be filing for whichever benefit is higher and will not be able to change from one to the other later.

Tip: If you reached age 62 before the end of December 2015, you are grandfathered under the old rules. If your spouse has filed for Social Security worker benefits, you can still file a restricted application for spouse-only benefits at full retirement age and claim your own worker benefit at a later date.

Basic Social Security claiming options remain unchanged. You can file for a permanently reduced benefit starting at age 62, receive your full benefit at full retirement age, or postpone filing for benefits and earn delayed retirement credits, up to age 70.

Although some claiming options are going away, plenty of planning opportunities remain, and you may benefit from taking the time to make an informed decision about when to file for Social Security.





Americans on the move

Americans are picking up and moving again as the recession fades, personal finances improve, and housing markets recover. Counties in Florida, Nevada, and Arizona had larger influxes of people, while some counties in Illinois, Virginia, New York, and California saw more people moving out. (Source: The Pew Charitable Trusts, *Americans Are on the Move--Again*, June 25, 2015, www.pewtrusts.org)

Cost of Living: Where You Live Can Affect How Rich You Feel

Do you find yourself treading water financially even with a relatively healthy household income? Even with your new higher-paying job and your spouse's promotion, do you still find it difficult to get ahead, despite carefully counting your pennies? Does your friend or relative halfway across the country have a better quality of life on less income? If so, the cost of living might be to blame.

The cost of living refers to the cost of various items necessary in everyday life. It includes things like housing, transportation, food, utilities, health care, and taxes.

Single or family of six?

Singles, couples, and families typically have many of the same expenses--for example, everyone needs shelter, food, and clothing--but families with children typically pay more in each category and have the added expenses of child care and college. The Economic Policy Institute (epi.org) has a family budget calculator that lets you enter your household size (up to two adults and four children) along with your Zip code to see how much you would need to earn to have an "adequate but modest" standard of living in that geographic area.

What areas have the highest cost of living? It's no secret that the East and West Coasts have some of the highest costs. According to the Council for Community and Economic Research, the 10 most expensive U.S. urban areas to live in Q3 2015 were:

Rank	Location
1	New York, New York
2	Honolulu, Hawaii
3	San Francisco, California
4	Brooklyn, New York
5	Orange County, California
6	Oakland, California
7	Metro Washington D.C./Virginia
8	San Diego, California
9	Hilo, Hawaii
10	Stamford, Connecticut

Factors that influence the cost of living

Let's look in more detail at some of the common factors that make up the cost of living.

Housing. When an area is described as having "a high cost of living," it usually means housing costs. Looking to relocate to Silicon Valley from the Midwest? You better hope for a big raise; the mortgage you're paying now on your

modest three-bedroom home might get you a walk-in closet in this technology hub, where prices last spring climbed to a record-high \$905,000 in Santa Clara County, \$1,194,500 in San Mateo County, and \$690,000 in Alameda County. (Source: *San Jose Mercury News*, *Silicon Valley Home Prices Hit Record Highs, Again*, May 21, 2015)

Related to housing affordability is student loan debt. Student debt--both for young adults and those in their 30s, 40s, and 50s who either took out their own loans, or co-signed or borrowed on behalf of their children--is increasingly affecting housing choices and living situations. For some borrowers, monthly student loan payments can approximate a second mortgage.

Transportation. Do you have access to reliable public transportation or do you need a car? Younger adults often favor public transportation and supplement with ride-sharing services like Uber, Lyft, and Zipcar. But for others, a car (or two or three), along with the cost of gas and maintenance, is a necessity. How far is your work commute? Do you drive 100 miles round trip each day or do you telecommute? Having to buy a new (or used) car every few years can significantly impact your bottom line.

Utilities. The cost of utilities can vary by location, weather, usage, and infrastructure. For example, residents of colder climates might find it more expensive to heat their homes in the winter than residents of warmer climates do cooling their homes in the summer.

Taxes. Your tax bite will vary by state. Seven states have no income tax--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. In addition, property taxes and sales taxes can vary significantly by state and even by county, and states have different rules for taxing Social Security and pension income.

Miscellaneous. If you have children, other things that can affect your bottom line are the costs of child care, extracurricular activities, and tuition at your flagship state university.

To move or not to move

Remember The Clash song "Should I Stay or Should I Go?" Well, there's no question your money will go further in some places than in others. If you're thinking of moving to a new location, cost-of-living information can make your decision more grounded in financial reality.

There are several online cost-of-living calculators that let you compare your current location to a new location. The U.S. State Department has compiled a list of resources on its website at state.gov.



Estate Planning Strategies in a Low-Interest-Rate Environment



Low interest rates favor certain estate planning strategies over others, and the interest rates used by the IRS are at or near historic lows.

There may be costs and expenses associated with any of these strategies. Also, payments from these strategies are not guaranteed.

The federal government requires the use of certain published interest rates to value various items used in estate planning, such as an income, annuity, or remainder interest in a trust. The government also specifies interest rates that a taxpayer may be deemed to use in connection with certain installment sales or intra-family loans. These rates are currently at or near historic lows, presenting several estate planning opportunities.

Low interest rates favor certain estate planning strategies over others. For example, low interest rates are generally beneficial for a grantor retained annuity trust (GRAT), a charitable lead annuity trust (CLAT), an installment sale, and a low-interest loan. On the other hand, low interest rates generally have a detrimental effect on a qualified personal residence trust (QPRT) and a charitable gift annuity. But interest rates have little or no effect on a charitable remainder unitrust (CRUT).

Grantor retained annuity trust (GRAT)

In a GRAT, you transfer property to a trust, but retain a right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your designated beneficiaries, such as family members. The value of the gift of the remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. Also, if you survive the trust term, the trust property is not included in your gross estate for estate tax purposes. If the rate of appreciation is greater than the IRS interest rate, a higher value of trust assets escapes gift and estate taxation. Consequently, the lower the IRS interest rate, the more effective this technique can be.

Charitable lead annuity trust (CLAT)

In a CLAT, you transfer property to a trust, giving a charity the right to annuity payments for a term of years. After the trust term ends, the remaining trust property passes to your designated beneficiaries, such as family members. This trust is similar to a GRAT, except that you get a gift tax charitable deduction. Also, if the CLAT is structured so that you are taxed on trust income, you receive an up-front income tax charitable deduction for the gift of the annuity interest. Like with a GRAT, the lower the IRS interest rate, the more effective this technique can be.

Installment sale

If you enter into an installment sale with family members, you can generally defer the taxation of any gain on the property sold until the installment payments are received. However, if the family member resells the property within

two years of your installment sale, any deferred gain will generally be accelerated. The two-year limit does not apply to stocks that are sold on an established securities market.

You are generally required to charge an adequate interest rate (based on IRS published rates) in return for the opportunity to pay in installments, or interest will be deemed to be charged for income tax and gift tax purposes. However, with the current low interest rates, your family members can pay for the property in installments while paying only a minimal interest cost for the benefit of doing so.

Low-interest loan

A low-interest loan to family members might also be a useful strategy. You are generally required to charge an adequate interest rate on the loan for the use of the money, or interest will be deemed to be charged for income tax and gift tax purposes. However, with the current low interest rates, you can provide loans at a very low rate, and family members can effectively keep any earnings in excess of the interest they are required to pay you.

Effect of low rates on other strategies

- **Charitable remainder unitrust:** You transfer property to a trust, retaining a stream of payments for life or a number of years, after which the remainder passes to charity. You receive a current charitable deduction for the gift of the remainder interest. Interest rates have no effect if payments are made annually at the beginning of each year, and low interest rates have only a minimal detrimental effect if payments are made in any other way.
- **Qualified personal residence trust:** You transfer your personal residence to a trust, retaining the right to live in the home for a period of years, after which the residence passes to your designated beneficiaries, such as family members. The value of the gift of the remainder interest is discounted for gift tax purposes to reflect that it will be received in the future. The lower the IRS interest rate, the less effective this technique can be.
- **Charitable gift annuity:** You transfer property to a charity in return for the charity's promise to make annuity payments for your life (or for the lifetimes of you and your spouse). You receive a current charitable deduction for the gift of the remainder interest. The lower the interest rate, the lower the amount of your charitable deduction. Also, charities have generally been forced to reduce payout rates offered because of economic uncertainties and the low-interest-rate environment.



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Should I loan my child money for a down payment on a house?

For a lot of young people today, it's difficult to purchase a home without at least some financial assistance. As a result, many young adults turn to their parents or other family members for help with a down payment.

If you plan on lending your child money for a down payment on a house, you should try to assume the role of a commercial lender. Setting the terms of the loan in writing will demonstrate to your child that you take both your responsibility as lender and your child's responsibility as borrower seriously.

While having an actual loan contract may seem too businesslike to some parents, doing so can help set expectations between you and your child. The loan contract should spell out the exact loan amount, the interest rate and a repayment schedule. To avoid the uncomfortable situation of having to remind your child that a payment is due, consider asking him or her to set up automatic monthly transfers from his or her bank account to yours.

This type of loan documentation is also important for IRS purposes because there may be potential income and gift tax issues with these types of loans. For example, interest paid by your child will be considered taxable income, and if adequate interest is not charged for the loan, special imputed interest rules may apply.

If you don't feel comfortable lending your child money, you may want to consider making a smaller, no-strings-attached gift that doesn't have to be repaid. Currently, you can gift up to \$14,000 annually per person under the gift tax exclusion. However, if you do gift money for a down payment, your child's lender may still require him or her to put up some of his or her own money, depending on the type of mortgage chosen.

Keep in mind that lending money to family members can be a tricky proposition. Before entering into this type of financial arrangement, you should take the time to carefully weigh both the financial and emotional costs.



What information will I need before shopping for an auto insurance policy?

Shopping for auto insurance might sound like a drag, but it's important for you to have appropriate coverage in the

event of an accident. Following are some guidelines to consider when purchasing your auto insurance policy.

- **Gather information.** Before you start shopping, compile key information about each vehicle you want to insure. This list should include the year, make, and model of each vehicle. Knowing your Vehicle Identification Number (VIN) may help you get a more accurate quote. Be prepared to answer questions about vehicle usage or special after-market equipment installed in your vehicle.
- **Decide what you need.** Whether you're purchasing auto insurance for a new vehicle or making changes to your existing policy, it's important to be familiar with the different coverages available to you. Maybe what you currently have doesn't meet your needs, or perhaps your premium seems to high.
- **Bear in mind that there may be a gap between how much coverage your state requires you to have and how much you may actually need.**
- **Shop around.** When selecting an insurer, ask questions. How long has the company been selling auto insurance? Does it have a good reputation? How is the company's customer service and claims handling? Is it able to provide the coverage you need at a price you can afford? Answering these questions could make it easier for you to shop for the policy that's right for you.
- **Ask about discounts.** You could be eligible for several discounts. These vary by state and company but may include discounts for multiple vehicles, anti-theft devices, and low annual mileage.
- **Compare quotes.** Once you have a collection of quotes, you need to compare them. Review each quote for information such as coverage levels, policy length, and price. This will help you attain the best overall value for your money as well as sufficient protection for your vehicle.

