



DaVinci Financial Designs

Jim Agostini, CFP®, ChFC®
LPL Registered Principal
3200 Devine Street
Suite 200
Columbia, SC 29205
Office 803-741-0134
Mobile 803-530-5375
jim.agostini@dav-fd.com
www.davincifinancialdesigns.com

We hope you find the information in this newsletter valuable. Please feel free to call us if you have any questions or concerns. We look forward to speaking to you soon.

Jim, Brad, Carolyn, Ashley and Jessica.

May 2015

How Does Divorce Affect Social Security Retirement Benefits?

Avoiding Probate: Is It Worth It?

When Your Child Asks for a Loan, Should You Say Yes?

What is this new chip-card technology I've been hearing about in the news?

How Does Divorce Affect Social Security Retirement Benefits?



One of the challenges of planning for retirement is that an unexpected event, like divorce, can dramatically change your retirement income needs. If you were counting on your spouse's

Social Security benefits to provide some of your retirement income, what happens now that you're divorced?

What are the rules?

Even if you're divorced, you may still collect benefits on your ex-spouse's Social Security earnings record if:

- Your marriage lasted 10 years or longer
- You are age 62 or older
- Your ex-spouse is entitled to receive Social Security retirement or disability benefits, and
- The benefit you're entitled to receive based on your own earnings record is less than the benefit you would receive based on your ex-spouse's earnings record

If you've been divorced for at least two years, and the other requirements have been met, you can receive benefits on your ex-spouse's record even if he or she has not yet applied for benefits.

How much can you receive?

If you begin receiving benefits at your full retirement age (66 to 67, depending on your year of birth), your spousal benefit is equal to 50% of your ex-spouse's full retirement benefit (or disability benefit). For example, if your ex-spouse's benefit at full retirement age is \$1,500, then your spousal benefit is \$750. However, there are several factors that may affect how much you ultimately receive.

Are you eligible for benefits based on your own earnings record? If so, then the Social Security Administration (SSA) will pay that amount first. But if you can receive a higher benefit based on your ex-spouse's record, then you'll receive a combination of benefits that equals the higher amount.

Will you begin receiving benefits before or after your full retirement age? You can receive benefits as early as age 62, but your monthly

benefit will be reduced (reduction applies whether the benefit is based on your own earnings record or on your ex-spouse's). If you decide to receive benefits later than your full retirement age, your benefit will increase by 8% for each year you wait past your full retirement age, up until age 70 (increase applies only if benefit is based on your own earnings record).

Will you work after you begin receiving benefits? If you're under full retirement age, your earnings may reduce your Social Security benefit if they are more than the annual earnings limit that applies.

Are you eligible for a pension based on work not covered by Social Security? If so, your Social Security benefit may be reduced.

Planning tip: *If you decide not to collect retirement benefits until full retirement age, you may be able to maximize your Social Security income by claiming your spousal benefit first. By opting to receive your spousal benefit at full retirement age, you can delay claiming benefits based on your own earnings record (up until age 70) in order to earn delayed retirement credits. This can boost your benefit by as much as 32%. Because deciding when to begin receiving Social Security benefits is a complicated decision and may have tax consequences, consult a professional.*

What happens if one of you remarries?

Benefits for a divorced spouse are calculated independently from those of a current spouse, so your benefit won't be affected if your spouse remarries. However, if you remarry, then you generally can't collect benefits on your ex-spouse's record unless your current marriage ends. Any spousal benefits you receive will instead be based on your current spouse's earnings record.

What if your ex-spouse dies?

If your marriage lasted 10 years or more, you may be eligible for a survivor benefit based on your ex-spouse's earnings record.

For more information on how divorce may affect your Social Security benefits, contact the SSA at (800) 772-1213 or visit socialsecurity.gov.



Avoiding Probate: Is It Worth It?



Why avoid probate?

- **It can be slow; getting needed assets into the hands of your heirs may be delayed**
- **It can be costly, especially if an estate is large or complex, or ancillary probate is needed**
- **It is public; documents that you wish to remain private can be accessed by the public**

How to avoid probate

- **Own assets jointly with right of survivorship**
- **Own assets that pass by beneficiary designation, such as life insurance and retirement plans**
- **Use a trust**
- **Gift assets during your lifetime**

When you die, your estate goes through a process that manages, settles, and distributes your property according to the terms of your will. This process is governed by state law and is called probate. Probate proceedings fall under the jurisdiction of the probate court (also called the Surrogate's, Orphans', or Chancery court) of the state in which you are domiciled at the time of your death. This court oversees probate of your personal property and any real estate that is located in that state. If you own property located in a state other than the state in which you are domiciled at the time of your death, a separate "ancillary" probate proceeding may need to be initiated in the other state.

Note: "Domicile" is a legal term meaning the state where you intend to make your permanent home. It does not refer to a summer home or a temporary residence.

Items that are subject to probate are known as probate assets. Probate assets generally consist of any property you own individually at the time of your death that passes to your beneficiaries according to the terms of your will. Examples of nonprobate assets include property that is owned jointly with right of survivorship (e.g., a jointly held bank account) and property that is owned as tenants-by-the-entirety (i.e., real property owned jointly by a husband and wife). Other examples are property that passes to designated beneficiaries by operation of law, such as proceeds of life insurance and retirement benefits, and property held in trust. Property that does not pass by will, right of survivorship, beneficiary designation, or trust will also be subject to probate.

Why avoid probate?

Most wills have to be probated. The rules vary from state to state, but in some states, smaller estates are exempt from probate, or they may qualify for an expedited process.

Probate can be slow. Depending on where your executor probates your estate and the size of your probate estate, the probate process can take as little as three months or as long as three years. Three years can be a long time to wait for needed income. It can take even longer if the estate is a complicated one or if any of the heirs are contesting the will.

Probate can be costly. Probate costs usually include court costs (filing fees, etc.), publication

costs for legal notices, attorney's fees, executor's fees, bond premiums, and appraisal fees. Court costs and attorney's fees can vary from state to state. Typically, the larger the estate, the greater the probate costs. However, if a smaller estate has complex issues associated with its administration or with distribution of its assets (e.g., if the person who died owned property in several states), probate can be quite costly.

Probate is a public process. Wills and any other documents submitted for probate become part of the public record—something to consider if you or your family members have privacy concerns.

Why choose to go through probate?

For most estates, there's usually little reason to avoid probate. The actual time and costs involved are often modest, and it just doesn't make sense to plan around it. And there are actually a couple of benefits from probate. Because the court supervises the process, you have some assurance that your wishes will be abided by, and if a family squabble should arise, the court can help settle the matter. Further, probate offers some protection against creditors. As part of the probate process, creditors are notified to make their claims against the estate in a timely manner. If they do not, it becomes much more difficult for them to make their claims later on.

In addition, some states require that your will be probated before the beneficiaries under your will can exercise certain rights. Among the rights that may be limited are the right of your surviving spouse to waive his or her share under the will and elect a statutory share instead, use your residence during his or her remaining life, set aside certain property, and receive a family allowance.

How to avoid probate

An estate plan can be designed to limit the assets that pass through probate or to avoid probate altogether. Property may be passed outside of probate by owning property jointly with right of survivorship; by ensuring that beneficiary designation forms are completed for those types of assets that allow them, such as IRAs, retirement plans, and life insurance (to avoid probate you shouldn't name your estate as beneficiary); by putting property in a trust; and by making lifetime gifts.

When Your Child Asks for a Loan, Should You Say Yes?



Perhaps you have plenty of money to lend, and you're not earning much on it right now, so when your child asks for a loan, you think, "Why not?" But even if it seems to be the right thing to do, look closely at potential consequences before saying yes.

You raised them, helped get them through school, and now your children are on their own. Or are they? Even adult children sometimes need financial help. But if your child asks you for a loan, don't pull out your checkbook until you've examined the financial and emotional costs. Start the process by considering a few key questions.

Why does your child need the money?

Lenders ask applicants to clearly state the purpose for the loan, and you should, too. Like any lender, you need to decide whether the loan purpose is reasonable. If your child is a chronic borrower, frequently overspends, or wants to use the money you're lending to pay past-due bills, watch out. You might be enabling poor financial decision making. On the other hand, if your child is usually responsible and needs the money for a purpose you support, you may feel better about agreeing to the loan.

Will your financial assistance help your child in the long run?

It's natural to want to help your child, but you also want to avoid jeopardizing your child's independence. If you step in to help, will your child lean on you the next time, too? And no matter how well-intentioned you are, the flip side of protecting your child from financial struggles is that your child may never get to experience the satisfaction that comes with successfully navigating financial challenges.

Can you really afford it?

Perhaps you can afford to lend money right now, but look ahead a bit. What will happen if you find yourself in unexpected financial circumstances before the loan is repaid? If you're loaning a significant sum and you're close to retirement, will you have the opportunity to make up the amount? If you decide to loan your child money, be sure it's an amount that you could afford to lose, and don't take money from your retirement account.

What if something goes wrong?

One potential downside to loaning your child money is the family tension it may cause. When a financial institution loans money to someone, it's all business, and the repayment terms are clear-cut. When you loan money to a relative, it's personal, and if expectations aren't met, both your finances and your relationship with your child may be at risk.

For example, how will you feel if your child treats the debt casually? Even the most responsible child may occasionally forget to make a payment. Will you scrutinize your child's

financial decisions and feel obligated to give advice? Will you be okay with forgiving the loan if your child is unable to pay it back? And how will other family members react? For example, what if your spouse disagrees with your decision? Will other children feel as though you're playing favorites?

If you decide to say yes

Think like a lender

Take your responsibility, and the borrower's, seriously. Putting loan terms in writing sounds too businesslike to some parents, but doing so can help set expectations. You can draft a loan contract that spells out the loan amount, the interest rate, and a repayment schedule. To avoid playing the role of parent-turned-debt collector, consider asking your child to set up automatic monthly transfers from his or her financial account to yours.

Pay attention to some rules

Having loan documentation may also be necessary to meet IRS requirements. If you're lending your child a significant amount, prepare a promissory note that details the loan amount, repayment schedule, collateral, and loan terms, and includes an interest rate that is at least equal to the applicable federal rate set by the IRS. Doing so may help ensure that the IRS doesn't deem the loan a gift and potentially subject you to gift and estate tax consequences. You or your child may need to meet certain requirements, too, if the loan proceeds will be used for a home down payment or a mortgage. The rules and consequences can be complex, so ask a legal or tax professional for information on your individual circumstances.

If you decide to say no

Consider offering other types of help

Your support matters to your child, even if it doesn't come in the form of a loan. For example, you might consider making a smaller, no-strings-attached gift to your child that doesn't have to be repaid, or offer to pay a bill or two for a short period of time.

Don't feel guilty

If you have serious reservations about making the loan, don't. Remember, your financial stability is just as important as your child's, and a healthy relationship is something that money can't buy.

DaVinci Financial Designs

Jim Agostini, CFP®, ChFC®
LPL Registered Principal
3200 Devine Street
Suite 200
Columbia, SC 29205
Office 803-741-0134
Mobile 803-530-5375
jim.agostini@dav-fd.com
www.davincifinancialdesigns.com

IMPORTANT DISCLOSURES

Securities offered through LPL Financial, Member FINRA/SIPC
Investment advice offered through DaVinci Financial Designs, a registered investment advisor and separate entity from LPL Financial.

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.



What is this new chip-card technology I've been hearing about in the news?

In recent years, data breaches at major retailers have increased across the United States. As a way to counteract these data breaches, many U.S. credit-card companies have started implementing a more secure chip-card technology called EMV (which is short for Europay, Mastercard, and Visa).

Currently, most retailers use the magnetic strips on the back of your debit or credit card to access your account information. Unfortunately, the information contained in the magnetic strips is easily accessed by hackers. In addition, the magnetic strips use the same account information for every transaction. So once your card information is stolen, it can be used over and over again.

With the new EMV technology, debit cards and credit cards are embedded with a computer chip that generates a unique authentication code for each transaction. So if your card information is ever hacked, it can't be used again--it's a "one-and-done" scenario.

While many developed nations moved to EMV technology years ago, U.S. retailers have previously been unwilling to shoulder the costs.

Fortunately, there is good news for U.S. consumers on the horizon.

Beginning in 2015, many large retailers will switch to the new EMV technology by installing payment terminals designed to read the new chip-embedded payment cards. It may take additional time, however, for smaller retailers to adopt this latest technology.

Along with EMV, even more advanced encryption technology is being developed that will increase security for online transactions and payments made with smartphones. In fact, new mobile payment options like Apple Pay and Google Wallet could eventually make paying with plastic entirely obsolete.

In the meantime, in the wake of these data breaches, you should make it a priority to periodically review your credit-card and bank account activity for suspicious charges. If you typically wait for your monthly statements to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed.



Do I need to purchase flood insurance even if I don't live in a high-risk area for floods?

It depends. Powerful storms, inadequate drainage, melting snow, and hurricanes can all cause serious flooding

damage, even if you don't live in a high-risk flood area. According to the National Flood Insurance Program (NFIP), approximately 20% of all flood insurance claims come from areas that are at low to moderate risk for floods.

(Source: National Flood Insurance Program, October 2014) Since standard homeowners insurance generally does not cover damage directly caused by flooding, you may want to consider purchasing flood insurance if you live in an area of the country that is prone to severe weather systems that could result in flood damage to your home.

If you do plan on purchasing flood insurance, it is important to note that you can't simply buy flood insurance as an endorsement to your current homeowners policy. Instead, if you are eligible, you can purchase a separate flood insurance policy through an insurance company that participates in the NFIP.

A flood insurance policy provides flood protection for both your home and its contents. You can purchase up to \$250,000 of coverage for the building itself and up to \$100,000 of coverage for the contents. If the value of your home exceeds the amount available through the federal program, you may be able to buy excess flood insurance through a private insurer. Excess flood insurance covers amounts above the \$250,000 federal limit and, unlike NFIP coverage, may cover your home for its full replacement cost.

Keep in mind that even though flood insurance offers some degree of protection for flood-related basement damage, it doesn't cover all types of damage. It also doesn't cover events such as seepage or failure of a sump pump, and damage caused by sewer backups unless it is directly related to a flood. For more information on flood insurance, visit www.floodsmart.gov.

