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BENOIST
WEALTH STRATEGIES, INC
*An Independent Firm*

# Financial Insight Quarterly

*Your Source for Financial Well-Being*

## What's New in the Housing Market for 2015?


Home buyers and sellers finally have reason to celebrate in 2015. After almost a decade of limping along toward recovery, it seems as though the housing market has finally hit a more comfortable stride. According to the S&P/Case-Shiller Home Price Indices, well-known gauges of the U.S. housing market, real estate is finally showing healthy signs of improvement.

Data released by Case-Shiller at the end of April indicates that home prices have continued to rise across the United States. (Source: S&P/Case-Shiller Home Price Indices, April 2015) And as it turns out, no one factor is responsible for the trend. Rather, a variety of factors are being credited for the recovery.

### Low mortgage interest rates

This year, mortgage rates have remained at all-time lows. (Source: Freddie Mac U.S. Economic & Housing Market Outlook, April 2015) A slower-than-expected economic recovery may be partly responsible, with the Federal Reserve holding off on raising interest rates until the economy is on more solid ground. And while interest rates are expected to go up at some point (possibly later this year), home buyers are taking advantage of the historically low rates while they can.

### Less-stringent mortgage lending

Obtaining a mortgage has gotten easier this year thanks to less-stringent lending requirements. (Source: Mortgage Credit Availability Index, March 2015) A number of changes are being credited for making mortgage lending more readily available.

Fannie Mae and Freddie Mac lowered their down payment thresholds this past December to as little as 3% of a home's purchase price, a boon for first-time home buyers and buyers with low down payment funds available.

In addition, the Federal Housing Administration (FHA) announced this past January that it will lower what it charges for annual mortgage insurance premiums. The 0.5% decrease, from 1.35% to 0.85%, is expected to reduce an FHA borrower's annual mortgage payment by $900 per year, on average. (Source: U.S. Department of Housing and Urban Development, HUD No. 15-001)

### Low housing inventory

A low housing inventory frequently gives home sellers the advantage, since it often leads to an increase in housing prices. While inventory does vary by location, total unsold inventory was on the lower end, with a 4.6-month available supply. (Source: National Association of Realtors, News Release, April 2015)

### Buying a home is more affordable than renting

According to Trulia's Rent vs. Buy Index, it was cheaper to buy a home than to rent one in all of the nation's largest 100 cities in late 2014. And nationwide, owning was 38% less expensive than renting, although the gap varied widely by location. (Source: Trulia.com, Rent vs. Buy Index, October 2014)

### Millennials are entering the market

Despite living with high student debt and a tepid job market, millennials are finally entering the real estate market. In fact, adults age 34 and younger made up the largest percentage of home buyers in 2014, accounting for 32% of all home purchases nationwide. (Source: National Association of Realtors, Home Buyer and Seller Generational Trends study, 2015)

Of course, this doesn't mean that all millennials are buying homes. Those with the highest student loan debt may have trouble meeting the debt-to-income ratios required by lenders for a mortgage. Others are postponing starting a family, which affects their urgency to purchase a home.

# Prepaid Funeral Arrangements Can Have Grave Consequences

An important part of estate planning involves consideration of funeral or memorial arrangements, including paying for some or all of the costs in advance. Planning ahead not only spares your survivors from the stress of making these decisions, but prepaying for your services relieves your survivors from the burden of worrying about money during an otherwise difficult time.

## Prepaid agreement

One way to prepay your funeral is by entering into a pre-need agreement with a funeral home of your choice. The funeral home may agree to "lock in" costs for future funeral or burial services at an agreed-upon price. This is often done through a trust or other arrangement that you can fund with cash, bonds, or life insurance. At your death, the funds are disbursed to pay for your funeral according to the terms of the agreement.

But before entering into a prepaid arrangement, you may want to get answers to the following questions:

- What happens to the funds you've prepaid? How are they held? Do they earn interest? Are they safe?
- What happens if the funeral home goes out of business? What protections, if any, do you have that your funds will be available when needed?
- Can you cancel the agreement and, if so, are you able to receive a refund?
- If you move, can your funds be transferred to another funeral home? Will the same terms apply? Is there a fee or cost to transfer your funds to another funeral home?

## The Funeral Rule

There are some legal protections available to consumers of funeral home services. The Funeral Rule, enforced by the Federal Trade Commission (FTC), requires funeral providers to give consumers accurate, itemized price information and other disclosures about funeral goods and services. The Rule also prohibits funeral providers from misrepresenting service-related requirements and from engaging in unfair or deceptive practices.

The key feature of the Funeral Rule is the General Price List, which entitles consumers to receive itemized prices for the various goods and services offered, allowing them to comparison shop and to purchase goods and services on an itemized basis, and not solely as part of a package. For more information on shopping for funeral services, the Funeral Rule, and prepaying for some or all of the expenses involved, visit the FTC consumer website www.consumer.ftc.gov.

## State law protections

The Funeral Rule generally governs funeral providers. It does not offer specific remedies or causes of action for consumers who are victims of funeral providers that do not comply with the Rule. Laws in individual states regulate funeral providers and help ensure that advance payments are available when they're needed. However, protections vary widely from state to state, sometimes providing a window of opportunity for unscrupulous operators.

## What can you do?

Before entering into a prepaid agreement, here are some steps you can take to safeguard your funds and ensure you'll get the services you've payed for:

- Find out what kind of consumer protection your state provides and whether it regulates the payment methods.
- Be sure that your funds or insurance policy are held in a trust at a reputable bank or other financial institution that you can check on to be sure your money or policy is safe. You may even be entitled to an annual statement.
- If you're funding some or all of the pre-need arrangements with life insurance purchased through the funeral services provider, be sure the policy is permanent insurance, such as whole life, and not term insurance (if you outlive the term of the policy, there will be no insurance proceeds to pay for your funeral).
- The agreement should address what happens to any excess funds that may be available after paying for your services. Some pre-need contracts allow you to designate how excess funds are to be disposed (e.g., surviving family members, your church or other charity).
- Along those same lines, if you cancel the contract, you may be entitled to a partial or full refund, although some states allow the funeral provider to retain a portion of the funds, often depending on how long the contract has been in existence.

Ultimately, be sure to tell your family about the plans you've made and where you'll keep important documents, such as your last will and testament and any documentation you've retained concerning your pre-need funeral arrangements.

***Possible long-term care benefit***

*Irrevocable funeral trusts may also help you qualify for long-term care benefits through Medicaid. These trusts may be funded with assets that would otherwise be countable resources for Medicaid. Trust assets, including life insurance death benefits, are not countable resources when trying to qualify for long-term care benefits through Medicaid. And you can fund the funeral trust right before applying for benefits--there's no "look-back" period for these transfers. The legal expense to create an irrevocable funeral trust (IFT) is typically paid by the insurance company, which acts as the Trustee. There is typically no expense to the insured party to create the IFT other than the one-time cost of the insurance. Almost all states impose a limit on the amount of money that can be placed in a funeral trust. Not all funeral trusts are considered to be Medicaid-exempt assets. Consult with your estate planning attorney for help with your individual circumstances.*

# Planned Charitable Giving


***Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts.***

***There may be costs and expenses associated with trusts, private foundations, and donor-advised funds. Income from charitable trusts and charitable gift annuities is not guaranteed.***

Today more than ever, charitable institutions stand to benefit as the first wave of baby boomers reach the stage where they're able to make significant charitable gifts. If you're like many Americans, you too may have considered donating to charity. And though writing a check at year-end is one of the most common ways to give to charity, planned giving may be even more effective.

## What is planned giving?

Planned giving is the process of thinking strategically about charitable giving to maximize the personal, financial, and tax benefits of your gifts. For example, you may need to receive income in exchange for the assets you donate, or you may want to be involved in deciding how your gift is spent--things that typically can't be done with standard checkbook giving.

## Questions to consider

To help you start thinking about your charitable plan, consider these questions:

- Which charities do you want to benefit?
- What kind of property do you want to donate (e.g., cash, stocks, real estate, life insurance)?
- Do you want the gift to take effect during your life or at your death?
- Do you want to retain an interest in the property you donate?
- Do you want to be involved in deciding how your gift is spent?

## Gifting strategies

There are many ways to donate to charity, from a simple outright cash gift to a complex trust arrangement. Each option has strengths and tradeoffs, so it's a good idea to consider which strategy is best for you. Here are some common options:

**Outright gift.** An outright gift is an immediate gift for the charity's benefit only. It can be made during your life or at your death via your will or other estate planning document. Examples of property you can gift are cash, securities, real estate, life insurance proceeds, art, collectibles, or other property.

**Charitable trust.** A charitable trust lets you split a gift between a charitable and a noncharitable beneficiary, allowing you to integrate financial needs with philanthropic desires. The two main types are a charitable remainder trust and a charitable lead trust. A typical charitable remainder trust provides an annuity or unitrust interest for one or two persons for life. An annuity interest provides fixed payments, while a unitrust interest provides for payments of a fixed percentage of trust assets (valued annually). At the end of the trust term, assets remaining in the trust pass to the charity. This can be an attractive strategy for older individuals who seek income. There are a few other variations of the charitable remainder trust, depending on how the income stream is calculated. With a charitable lead trust, the order is reversed; the charity gets the first, or lead unitrust or annuity interest, and the noncharitable beneficiary receives the remainder interest at the end of the trust term.

**Charitable gift annuity.** A charitable gift annuity provides a fixed annuity for one or two persons for life. It's easier to establish than a charitable remainder trust because it doesn't require a formal trust document.

**Private foundation.** A private foundation is a separate legal entity you create that makes grants to public charities. You and your family members, with the help of professional advisors, run the foundation--you determine how assets are invested and how grants are made. But in doing so, you're obliged to follow the many rules and regulations governing private foundations.

**Donor-advised fund.** Similar to but less burdensome than a private foundation, a donor-advised fund is an account held by a charity to which you can transfer assets. You can then advise, but not direct, how your assets will be invested and how grants will be made.

## Tax benefits

Charitable giving can provide you with great personal satisfaction. But let's face it, the tax benefits are valuable, too. Your gift can result in a substantial income tax deduction in the year you make the donation, and it may also reduce capital gains and estate taxes. With a charitable remainder trust, you generally receive an up-front income tax deduction equal to the estimated present value of the interest that will eventually go to charity.

Charitable contribution deductions are generally limited to 50% of your adjusted gross income (AGI), or 30% or 20% of AGI depending on the type of charity and the property donated. Disallowed amounts can generally be carried over and deducted in the following five years, subject to the percentage limits in those years. Your overall itemized deductions may also be limited based on the amount of your AGI.

The charity must be a qualified public charity in order for you to enjoy these tax benefits. Not all tax-exempt charities are qualified charities for tax purposes. To verify a charity's status, check IRS Publication 78, or visit www.irs.gov.

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## What return are you really earning on your money?

If you're like most people, you probably want to know what return you might expect before you invest. But to translate a given rate of return into actual income or growth potential, you'll need to understand the difference between *nominal return* and *real return,* and how that difference can affect your ability to target financial goals.

Let's say you have a certificate of deposit (CD) that's about to expire. The yield on the new three-year CD you're considering is 1.5%.

But that 1.5% is the CD's nominal rate of return; it doesn't account for inflation or taxes. If you're taxed at the 28% federal income tax rate, roughly 0.42% of that 1.5% will be gobbled up by federal taxes on the interest. Okay, you say, that still leaves an interest rate of 1.08%; at least you're earning something.

However, you also need to consider the purchasing power of the interest that the CD pays. Even though inflation is relatively low today, it can still affect your purchasing power, especially over time. Let's say that consumer prices have gone up by 1% over the past year and you adjust your 1.08% after-tax return for inflation. Suddenly, you're barely breaking even on your investment.

What's left after the impact of inflation and taxes is your real return, because that's what you're really earning in actual purchasing power. If the nominal return on an investment is low enough, the real return can actually be negative, depending on your tax bracket and the inflation rate over time. Though this hypothetical example doesn't represent the performance of any actual investment, it illustrates the importance of understanding what you're really earning.

Knowing the difference between nominal and real return may help you make better decisions when it comes to investing your money. You'll want to choose investments that match your financial goals and tolerance for risk. In some cases, the security an investment offers may be important enough that you're willing to accept a low real return; in other cases, you may choose an investment that has the potential for a higher real return but carries a higher degree of risk.


## How important are dividends in the S&P 500's total returns?

In a word, very. Dividend income has represented roughly one-third of the total return on the Standard & Poor's 500 index since 1926.*

According to S&P, the portion of total return attributable to dividends has ranged from a high of 53% during the 1940s--in other words, more than half that decade's return resulted from dividends--to a low of 14% during the 1990s, when the development and rapid expansion of the Internet meant that investors tended to focus on growth.*

And in individual years, the contribution of dividends can be even more dramatic. In 2011, the index's 2.11% average dividend component represented 100% of its total return, since the index's value actually fell by three-hundredths of a point.** And according to S&P, the dividend component of the total return on the S&P 500 has been far more stable than price changes, which can be affected by speculation and fickle market sentiment.

Dividends also represent a growing percentage of Americans' personal incomes. That's been especially true in recent years as low interest rates have made fixed-income investments less useful as a way to help pay the bills. In 2012, dividends represented 5.64% of per capita personal income; 20 years earlier, that figure was only 3.51%.*

***Note:*** *All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. Investing in dividends is a long-term commitment. Investors should be prepared for periods when dividend payers drag down, not boost, an equity portfolio. A company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.*

*Source: "Dividend Investing and a Look Inside the S&P Dow Jones Dividend Indices," Standard & Poor's, September 2013

**Source: www.spindices.com, "S&P 500 Annual Returns" as of 3/13/2015

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