All Things Financial Planning

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SUMMARY:

- Introduction: Policy Proposals of the Presidential Candidates
- Assisted Living Considerations
- College Planning and COVID-19

Greetings from the CFM Planning Team,

It has been an extraordinary 2020. From COVID-19 to protests concerning racial inequality, this has already proven to be a very unsettling year in our country's history. And seemingly taking a back seat to the virus and ongoing civil unrest is an upcoming presidential election that could reshape America for decades to come.

Both President Trump and Joe Biden have declared that the 2020 election is a fight or battle for the soul of America. We will see what Americans decide in a few weeks at the polls, but regardless of the outcome, the economic agendas set forth by both candidates offer very distinct visions for the next four years and beyond.

Should President Trump be re-elected we should expect policy proposals involving continued deregulation, potential tax cuts for the middle class, a continued tough trade position on China, and an effort to secure the border and bring back manufacturing jobs to America. Concerning tax policies, Trump is a proponent of extending the 2017 Tax Cuts and Jobs Act provisions past 2025 and would be a staunch defender against any attempt to roll back the current tax law. For comparison, a chart on the following page shows pre- and post- TCJA income brackets and tax rates.

The TCJA repealed personal and dependent exemptions and replaced them with an increased standard deduction of $12K for individuals and $24K for married couples. It also doubled the per child credit from $1K to $2K. The mortgage interest deduction was reduced from $1.1M of debt (including $100K of home equity debt) to $750K of new acquisition debt (applicable to your principal and one other residence). The deduction for out-of-pocket medical expenses was reduced from above 10% of adjusted gross income to 7.5% of AGI.

The individual alternative minimum tax (AMT) was retained under the TCJA, but both the exemption levels and income threshold at which the AMT exemption phases out were raised, which significantly reduced the number of taxpayers subject to the AMT. The Act also doubled the estate tax exemption to $11.2M for single filers and to $22.4M for couples, continuing to index the amounts for inflation. It further reduced the top corporate income tax rate from 35% to 21% with the idea that if corporations pay less in taxes, businesses can expand, and more jobs can be created.

TABLE 1

Individual Income Tax Brackets and Rates

2018

Prior Law					Tax Cuts and Jobs Act				
Taxable Income ($)					Taxable Income ($)				
Single Filers		Married Couples Filing Jointly		Tax Rate (percent)	Single Filers		Married Couples Filing Jointly		Tax Rate (percent)
Over	But not over	Over	But not over		Over	But not over	Over	But not over	
0	9,525	0	19,050	10	0	9,525	0	19,050	10
9,525	38,700	19,050	77,400	15	9,525	38,700	19,050	77,400	12
38,700	93,700	77,400	156,150	25	38,700	82,500	77,400	165,000	22
93,700	195,450	156,150	237,950	28	82,500	157,500	165,000	315,000	24
195,450	424,950	237,950	424,950	33	157,500	200,000	315,000	400,000	32
424,950	426,700	424,950	480,050	35	200,000	500,000	400,000	600,000	35
426,700	and over	480,050	and over	39.6	500,000	and over	600,000	and over	37

Source: Gale et al. (2018)

Trump has pledged to pursue a permanent cut to payroll taxes. The federal government levies a 12.4% Social Security tax on workers' paychecks, with the cost split between employers and employees (6.2% each). Wages above $137,700 in 2020 are not subject to this Social Security tax. In short, a Trump payroll tax cut would give workers a 6.2% raise to help stimulate an economy struggling to gain any traction due to the pandemic.

* * *

In contrast, a Biden administration would want to undo the TCJA in its entirety and raise revenue on the more affluent segments of America. Biden would lobby to raise corporate tax rates to 28%, push the highest personal income tax rate back to 39.6%, and cap itemized deductions for wealthier Americans. He is proposing to tax long-term capital gains and qualified dividends at the ordinary income tax rate of 39.6% on income above $1M (current rates are 0% to 23.8%, depending on income level). For the wealthiest Americans earning more than $1M, this could result in a dramatic shift upwards in their effective tax rate.

Unlike Trump, Biden would expand the Social Security payroll tax, making wages above $400K subject to the 12.4% tax, and has proposed changing the way the annual cost-of-living adjustment is calculated by utilizing an index with greater weight placed on housing and health care expenditures. This could result in an increase in Social Security benefits year over year due to the increase in Social Security inflation adjustments. The former Vice President continues to be consistent in his pledge not to raise taxes on anyone making less than $400K and supports raising the minimum wage to $15 an hour (up from $7.25/hour) at the federal level.

Biden has stated he would like to eliminate the step up in basis for inherited assets and has proposed lowering the federal estate tax exemption to $5M per person (currently at $11.58M). This amount would continue to be doubled for married couples. Any amount of net worth above this level would be subject to an approximate tax of 40%. While the lowering of the federal estate tax exemption from the current $11.58M to $5M per person would only effect the wealthiest of Americans (and might result in their imminent rush to estate planning attorneys and CPAs to explore the gifting and removing of assets from their estates), the elimination of the step up in basis has the potential to effect the vast majority of Americans. Currently, the law allows for the basis in an asset to increase, or step up, to the date of death value, and if the heir were to sell the asset upon receipt, very little, if any, tax would be paid. Eliminating this step up at death would mean the basis of the asset would simply carry over to the heir, which could result in a significant capital gains tax due when the asset is sold. For highly appreciated assets, such as a house that was purchased 30 years ago, or that Apple stock you bought in 2007, alternative estate and tax planning tactics would need to be considered.

Biden has proposed pursuing an expansion of the child and dependent care credit to $8K per child (with a maximum credit of $16K to be employed for two or more children) and creating a student loan forgiveness program. Whereas Trump would like to eliminate the Affordable Care Act (ACA), Biden has been a defender of the ACA throughout his campaign, and would attempt to expand upon it, including the offering of a public option that could be compared and contrasted to employer-based coverage and private plans. He has publicly supported lowering the age of Medicare eligibility from 65 to 60, which might allow more people the option of retiring earlier than planned because Medicare often offers a much more affordable alternative to private insurance. His plan would also call for increased tax benefits for elderly Americans who pay for long term care insurance with retirement savings.

* * *

The foregoing are the key economic and tax policies supported by the candidates. Although clear differences are prevalent in other areas, these economic positions offer a clear and distinct choice. It is important to remember, however, that presidential campaign proposals and positions are not legislation, and both houses of Congress must act and vote to facilitate a change in the law. We do not suggest making any major modifications to your financial plan based on unknowns and prospective changes. But whatever the election result, it will confirm an existing course or set a new one, and it will certainly cap an incredibly turbulent year.

In late October, we plan to host a virtual event on politics, policies, and the economy, presented by **Michael Townsend, Charles Schwab's Vice President of Legislative and Regulatory Affairs** to further this discussion. Stay tuned for this announcement and we would welcome your attendance.

Assisted Living: An Overview on Services, Costs, and Planning

by Shannon Knight, Associate Financial Planner

Whether it is for you, a loved one, or an aging friend or family member, looking at assisted living options can be a daunting task. According to the US Department of Health and Human Services, about 70% of individuals over the age of 70 will require some sort of long-term care services. Women often require longer care (3.7 years) than men (2.2 years). With the number of older adults projected to eclipse the number of children by 2034 in the US, the need for quality assisted living options will increase dramatically.

Assisted Living Facilities

Assisted living facilities are often best suited for individuals who start out requiring little care on a daily basis. They allow residents to maintain their independence as long as possible without compromising their safety. The facilities focus on supporting a residents' privacy, autonomy and dignity, with an importance placed on community and family involvement. Most places also promote a resident's right to practice (or abstain from) religion, to interact and socialize with people both in and out of the facilities, to participate in residential councils, to continue using personal possessions and to manage their own finances. Visitors can typically come to a facility at any time of the day and even stay overnight. Pets are also allowed in many assisted living homes.

Services and Amenities Provided

These facilities can provide a range of health care services, including memory care services for those with dementia and other related memory diseases and disorders. While many assisted living facilities automatically provide a transition into a skilled nursing care unit should that need arise, some do not, and this can be an important distinction to consider. Below are some health care services offered, with the percentage of facilities providing these services, according to a nationwide AARP 2017 poll:

- Access to a pharmacy: 83.6%
- Dietary and nutritional guidance: 82.8%
- Physical, occupational and/or speech therapy: 71.4%
- Hospice or end of life care: 67.7%

- Skilled nursing care: 66.1%
- Memory care: 14%

Personal space in these facilities can range from private apartments with a kitchen or kitchenette, bathroom, bedroom, and living room, to suites with shared living areas. Other amenities include meal preparations, social functions, private dining rooms and gathering spaces for families, recreational activities, transportation services, and housekeeping services.

In-Home Care Options

For individuals and couples who wish to stay in their home, in-home care is also an option. It allows seniors to age in the comfort of their own home and the opportunity to choose the person who will be providing the care, allowing the individual to get comfortable with the one caregiver. Advancements in technology and medical equipment are making in-home care more feasible than ever and one of the fastest growing types of care available. Most in-home care provider plans can include a combination of non-medical and skilled health care services, providing flexibility. Non-medical care services can include: personal care, companionship, supervision, laundry, light housekeeping, meal preparation, medication reminders, shopping, errands, and transportation. Unlike many assisted living facilities, in-home care options do not provide a guaranteed path to a skilled nursing facility, if the need should arise.

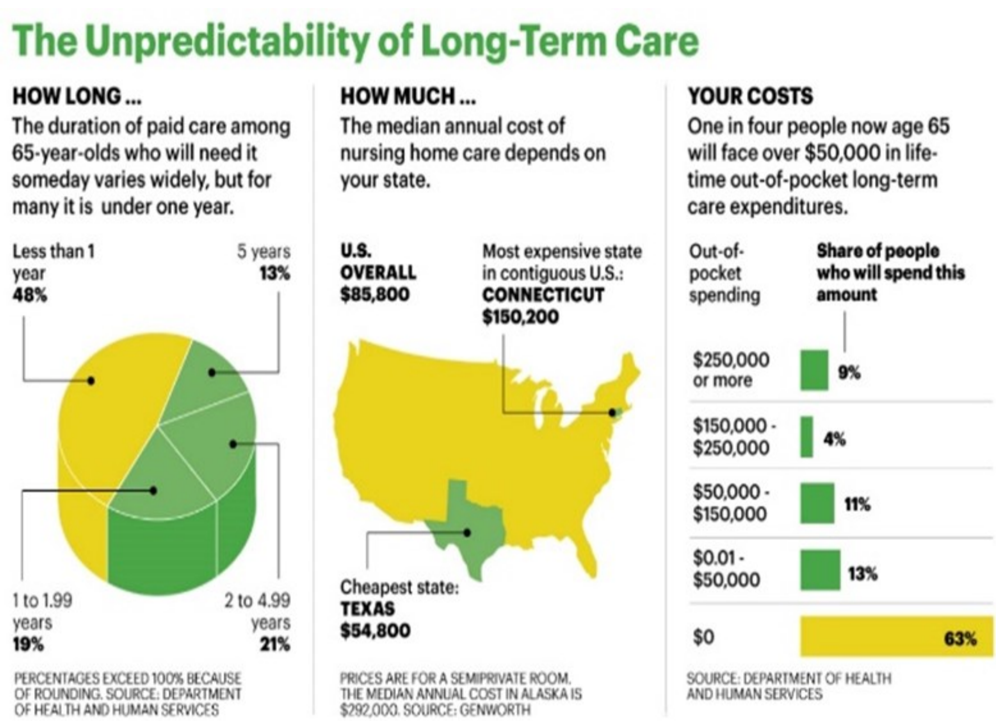
Adult Day Services

Developed as an alternative to the aforementioned assisted living options, adult day care (ADC) centers offer mental, social and physical stimulation and activities for adults who have lost some independence because of physical or cognitive impairments or chronic health conditions. ADCs are different from senior community centers that attract the more self-reliant, independent and mobile older adults. These centers offer coordinated programs of professional and compassionate services for adults in a community-based group setting. In providing daily services for aging adults and the handicapped, most operate for 10-12 hours a day, leaving overnight care for family caregivers or in-home medical care service personnel.

There are three types of adult day care centers. One type offers a social setting that includes meals, recreation and some health-related services. Another offers the same but includes more intensive health and therapeutic services. The third daycare provides specialized care to recipients with chronic needs or diagnosed dementias or developmental disabilities.

Assisted Living Costs

Assisted living costs per month can vary wildly depending on the level of care needed and amenities. Residential facilities along the Front Range in Colorado can cost between $5,000 to $10,000 per month, with skilled nursing and memory care options increasing costs significantly. Some places require an initial deposit ranging from $25,000 to $500,000, with a percentage of the deposit returned to the individual or estate, depending on the facility. We have collected a considerable amount of data on these local facilities. Let us know if you would like us to put together a comparison for you.



By contrast, the hourly rates for in-home care in Colorado can range from $25.00 to $30.00 per hour. Depending on when care is needed and the skill level of the care required, in-home care can be more affordable. But it can also result in a more expensive option if a large number of hours per day are required to meet the needs, and the individual receiving care is still paying for all household expenses, including food, utilities, taxes, and other costs. There are tradeoffs to consider but assisted living homes are much more affordable when 24/7 care is required. Adult day care centers are the most affordable care option for seniors by comparison. The average cost in Colorado is $75 per day – but this only provides a daytime solution and requires a considerable amount of transportation coordination as well.

Financial Planning Options

Portfolio investments, savings, and long-term care insurance are often used to subsidize the cost of assisted living. Insurance companies will review an individual's Activities of Daily Living (ADL) to determine whether or not it will pay out on a long-term care policy. These ADLs include eating, bathing, dressing, mobility, continence, and toileting. Typically, long-term care insurance will pay out when an individual is unable to perform at least two of the six ADLs.

With about 52% of long term care paid out of pocket, it is wise to look at long-term care insurance before assisted living or nursing home facilities are needed, as the cost of long-term care insurance can dramatically rise with increasing age and diminishing health. Premiums for individuals aged 65 are 8 to 10 percent higher than premiums for individuals aged 64.

Hybrid insurance policies, like whole life policies with long-term care riders, are also potential options to fund long-term care needs. These policies tend to be more expensive than the traditional long-term care policies but may allow for flexibility for financial and estate planning purposes.

Medicare will not cover basic assisted living expenses, but Medicare Part A will cover the first 100 days of skilled nursing facility (SNF) care if certain criteria are met. Medicare will not cover anything beyond 100 days. Medicaid will cover the cost of some personal care assistance, as well as the cost of nursing home care, if one qualifies. Qualification is based on income, marital status, and assets. There is also a Medicaid waiver program allowing many elderly individuals to remain living in their homes and to receive care. But there are participation caps for the program and a current waiting list.

When we put together financial plans here at Colorado Financial Management, we budget an average of $100,000 per year at 4.5% inflation should a long-term care event occur, or if we are modeling out the potential need for long-term care in the future. Some features of assisted living may be considered a qualified medical expense and qualify for the tax deduction, if expenses are over 7.5% of AGI in 2020. We recommend consulting with your CPA on whether these expenses qualify for that deduction.

Lastly, while it is wise to look at the costs associated with assisted living, personal lifestyle needs should be evaluated. Talking with family members and close friends about your wants and needs as you age can help better determine what type of assisted living arrangement is right for you and your family. You should also consider planning far in advance, as many highly sought-after facilities have waiting lists. We are happy to assist you with this planning process and can inquire about availability at facilities on your behalf.

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"One more time — explain to me why enjoying life after I retire is more important than enjoying life now."

College Planning in the Age of a Pandemic

by Tim Dutton, Associate Financial Planner, CFP

COVID-19 has dramatically adjusted the way schools are teaching at every level. There were no established standards to follow, and no 'pandemic playbook' to access for guidance. Every state, city, school district, and school has changed the way they teach at the primary and secondary level, and each is seemingly operating in their own unique way in an attempt to provide the best education possible to students. Colleges and universities were also required to make huge modifications in the way they function and educate as campuses around the country try to keep schools open and operations running in the grip of this pandemic.

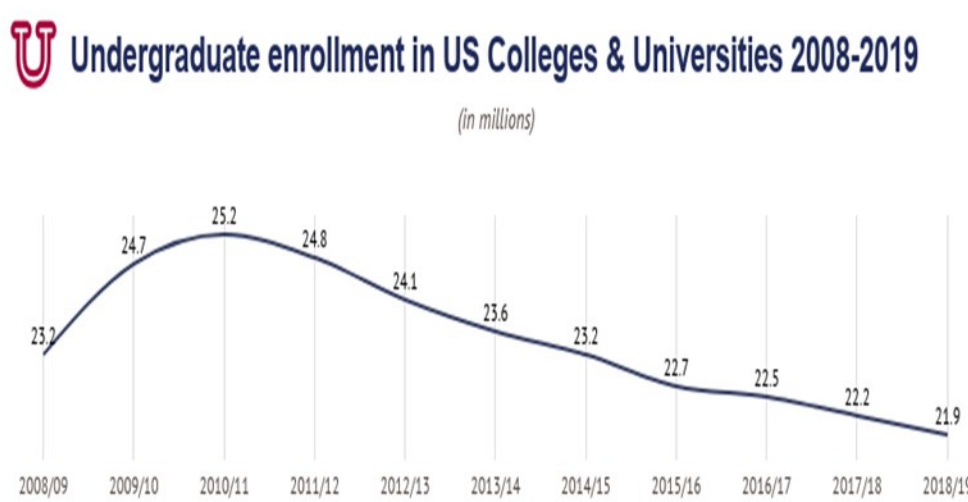
Temporarily closing down was not an option for many post-secondary education schools. Even before the pandemic, some institutions were facing financial hardships and huge budget deficits after years of deep cuts in state funding for higher education and a clear trend of decreasing enrollment since 2011 (see the chart below). With the pandemic, an even sharper decrease in enrollment for the fall of 2020 is likely, which will keep tuition rates and increases steady for most schools. It will also add pressure to endowments and school leaders to enact other cost saving measures. Tens of thousands of employees have already been laid off or furloughed to counter mounting deficits. Although many schools have resisted letting staff and faculty members go, this measure might be inevitable due to revenue losses that will likely be in the hundreds of millions, according to the *Chronicle of Higher Education*. Laying off faculty members could mean the quality of education is negatively affected, however, resulting in a possible death blow to the institution of higher learning itself.

Online Learning Adaptation

Universities and colleges have been required to develop advanced online learning platforms for social distancing purposes and to combat students defecting during the pandemic. Rapid advances in artificial intelligence, grading systems, and the need to create a virtual learning experience that replicates the classroom environment have accelerated this evolving movement. Whether these new flexible online learning environments are as effective as in person learning is still unknown. But one thing is certain – paying full tuition for a less than full college experience has prompted many students and parents to seek a reduction in tuition costs. Typically, academic programs include access to labs, seminars, and research opportunities. Most students also expect to participate in campus experiences such as Greek life, athletic events, and extracurricular activities on or near campus. In most places, the college experience in 2020 has a different look and feels incomplete.

Although many students received a pro-rated tuition adjustment in the spring of 2020, most institutions have not extended the reduction to the fall of 2020. Colleges and universities are refusing to budge on reducing tuition and expenses, arguing students are still having the same faculty teach the same classes for the same credits. As long as a degree comes from an accredited college, they argue, employers won't distinguish between traditional and online programs, and diplomas don't indicate whether classes were taken online or not regardless.

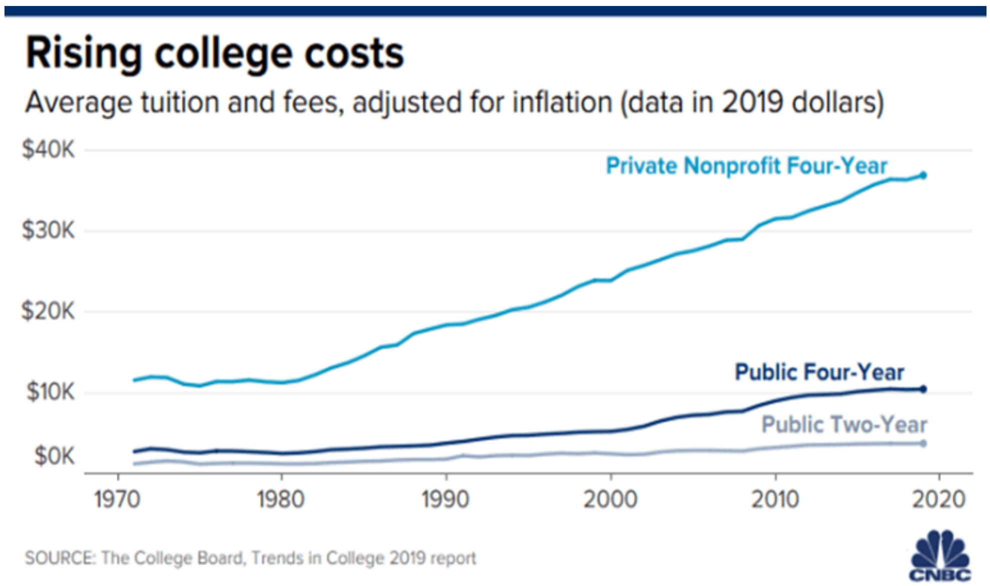
But the underlying rationale for not adjusting costs is more financially driven. Most institutions price their tuition carefully to balance their academic,



administrative, and operational costs. With schools stretched thin, they simply cannot afford to reduce rates without significant cost cutting measures, or running the risk of failure. So post-secondary costs will likely continue on a track of unsustainable increases as illustrated in the chart below. According to a recent *Forbes* article, there is a very good chance tuition costs could climb at a faster rate to compensate for losses caused by the pandemic, and as a corollary problem, student loan debt could surge even higher.

Community College Option

Community college enrollment has also declined in recent years, but with many college students changing their plans because of the location and cost of their first-choice schools, it is possible the characteristics of community colleges make them uniquely suited for students during the COVID-19 pandemic. According to a recent *US News & World Report* article, with 77% of families eliminating a school from consideration because of the cost at some point in the decision making process, and 38% of families reporting that their final decisions were due to financial considerations, community colleges can often offer a lower cost alternative to the higher education dilemma. Complicating the decision is that 52% of prospective college students surveyed had a parent or guardian furloughed or lose a job during the pandemic, which means the ability to afford college became even more difficult.



Designed for commuting students, many community colleges have multiple campuses. This allows students to live at home with parents, eliminating the expensive cost of room and board, and the ability to avoid crowded university and college dormitories and student housing during a pandemic. Students can also attend school full or part-time, allowing them to work, if necessary.

Community colleges are intended to be able to adapt to regional job market fluctuations and rapidly changing enrollment, working with local businesses to create relevant curricula to produce graduates that are best suited for the region's labor market demands. And even for those students who have plans to attend a university or college, they can earn an associate degree and have credits transfer to the four-year institution. Admissions departments should be consulted to make sure the degree and credits will transfer to the preferred institution prior to committing to a program. At least 30 states, including Colorado, have policies that guarantee students who earn an associate degree can transfer the credits to a four-year school and enroll as juniors.

The Gap Year

With families facing significant financial hardships, many students are opting to simply take a year off. According to a survey published in *Inside Higher Ed*, up to 40% of students nationwide were seriously considering taking a "gap year" as of this August. Whether or not they decided to take the school year off remains to be seen as data on actual college enrollment for the 2020-2021 school year was not readily available as of this publication.

Other than the cost savings, a gap year allows more time for vaccine development and a return to normalcy on campuses. It also allows for the economy to recover and the potential for an improved labor market after graduation. One can explore possible career paths through short-term skill-training programs, virtual internships and apprenticeships, and other remote practical learning opportunities. There are actual gap-year program providers that exist to assist in this self-discovery and skill building process. Some of them partner with traditional institutions of higher learning to offer credit to students.

One big consideration in taking a year off is what to do with student loans. Borrowers who leave college receive a 6-month grace period before payments are due for many federal student loans. But only one grace period is allowed. If the full grace period is used during a year off, after returning to school, the loans will come due immediately after graduation. Having a conversation with the financial aid office to understand the impact of the choice is prudent. The decision to temporarily leave school can also affect grants, scholarships and institutional aid that students would be counting on upon their return. For federal loans, there are income-driven repayment plans, unemployment deferment, and economic hardship deferment or forbearance options. Private loans may not come with the same terms and options as federal loans. Students should contact lenders to see what possibilities are available.

One further factor: not all institutions simply allow you to come back from a gap year. This year, many schools are taking away the option to defer, or they are adding in depth rules for freshman deferrals, according to a *Los Angeles Times* article written in July. It may result in students having to reapply as transfer students, or admission deferral requests not being granted. It is worth checking with the admissions department so any consequences of taking a year off are fully understood.

* * *

In summary, the higher education landscape has dramatically changed since the pandemic began, although a financial reckoning for some institutions has been developing for years. Universities and colleges are scrambling to maintain enrollments and to offer a robust online learning experience to justify students continuing to pay full tuition and costs. In implementing a cost versus value analysis, students still have options available to them including earning a cost-effective associate degree at a community college, or simply taking the year off as well to save money, especially if paying full tuition for attending virtual classes is not what one had in mind when they considered the quintessential college experience. Regardless of what choices are made by students, the pandemic will likely have a permanent impact on post-secondary institutions.

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