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The Financial Solutions Advisor

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Economic & Market Perspectives

As we wind down the third quarter it's time to look ahead. Typically, the fourth quarter sees quite a bit of action, with budget battles—both political and corporate—hiring and firing announcements for the next fiscal year, money manager positioning for year-end, and the all-important holiday shopping season all gracing the calendar.

There are also the seasonals to consider. Historically, October has often been associated with negative surprises for investors. The major stock market crashes in 1929 and 1987 come to mind, as does the Asian currency crisis in 1998. We do not anticipate a similar event happening any time soon, but we do think that volatility levels are likely to pick up in the coming months. Global political events (including the upcoming election in Japan, tax debates in the U.S. and ongoing tensions in North Korea) could rattle markets, as could ongoing Federal Reserve tightening and a possible uptick in inflation.

This year so far has been marked by historically low stock market volatility. We have only seen 5% of trading days with a move in the S&P 500 of greater than +/- 1%; by far the lowest level since 1982, when intra-day data began to be recorded. In addition, for the first time in a dozen years, there have been no +/- 2% days this year; while the maximum drawdown has been the shallowest in the history of the S&P 500.

Due to the steady rise of the US stock market since the depths of the global financial crisis, US stock valuations are frothy by most historical standards. History says that when the stock market's price-earnings ratio (PE) ratio is higher than average you can expect muted stock gains over the subsequent 10 years. Due to the high valuation of the US stock market, the risk of a pullback has risen, which in our opinion would be healthy, as it could help prevent a melt-up and keep investor sentiment in check.

2017 Returns

S&P 500	*14.24%*
NASDAQ	*23.99%*
Russell Small Cap	*10.94%*
Russell Mid Cap	*11.74%*
MSCI EAFE	*19.96%*
MSCI World	*16.01%*
Barclay US Agg. Bond	*3.14%*
Barclay Municipal Bond	*4.66%*

Home Equity Conversion Mortgages

Homeowners approaching retirement may consider how home equity factors into a retirement income plan. After all, home equity represents a significant portion of net worth for many people. But, home equity is illiquid and traditional home equity lines of credit can be difficult to get after retirement. Downsizing to a smaller less expensive residence is the solution for some. But what about homeowners that want to remain in their homes during retirement?

A Home Equity Conversion Mortgage (HECM), also known as a Reverse Mortgage, offers a solution to several challenges homeowners face in retirement. While Reverse Mortgages have been available for years, the government substantially recreated the product which is now better known as HECM. In short, the program was standardized, made less expensive and rules were added to protect homeowners (many of whom were ill-served by the traditional Reverse Mortgage product).

In short, homeowners 62 and older may borrow a portion of their home's equity with no payment requirements as long as they live in the home. They may borrow lump-sum, periodic payments, or use a line of credit. An existing mortgage may be rolled into the HECM (HECMs are first-lien, primary mortgages).

The amount people can borrow depends on their age, the home's value and interest rates. Unlike other loan products, the amount available on a HECM increases over time. Because the amount available increases over time, many homeowners find that entering a HECM earlier (i.e. at age 62) allows for the greatest growth.

Costs for HECMs include upfront costs as well as ongoing interest and mortgage insurance. Upfront costs include a 2 to 2.5 percent insurance premium and underwriting fees.

An important feature of a HECM is there are no required payments as long as the homeowner (or qualified spouse) lives in the home. Once the homeowner (or spouse) leaves the home due to death or a permanent move, the balance of the HECM is due (with a grace period). The homeowner or their heirs may repay what's due by selling the home or with other proceeds.

Another key feature of a HECM is that the homeowner (or heirs) does not have to repay any amounts owed in excess of the value of the home. So, if the home value has declined, or HECM balance has increased beyond the value, the mortgage insurance covers the lenders' losses.

A HECM may be an important component of a homeowner's retirement income plan. One powerful strategy is for the homeowner to coordinate drawing on their portfolio and accessing the HECM. To do this, the homeowner can access living expenses by using the HECM (line of credit) and not using portfolio funds during bear markets. This allows the homeowner to avoid "selling low" and increases the chances the portfolio will last as long as needed.

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If you plan to continue working after you reach age 65, you may be wondering how Medicare coordinates with your employer's group health plan. When you're eligible for both types of coverage, you'll need to consider the benefits and costs, and navigate an array of rules.

How does Medicare work with your group health plan?
You can generally wait to enroll in Medicare if you have group health insurance through your employer or your spouse's employer. Most employers can't require employees or covered spouses to enroll in Medicare to retain eligibility for their group health benefits. However, some small employers can, so contact your plan's benefits administrator to find out if you're required to sign up for Medicare when you reach age 65.

If you have Medicare and group health coverage, both insurers may cover your medical costs, based on "coordination of benefit" rules. The primary insurer pays your claim first, up to the limits of the policy. The secondary insurer pays your claim only if there are costs the primary insurer didn't cover, but may not pay all the uncovered costs.

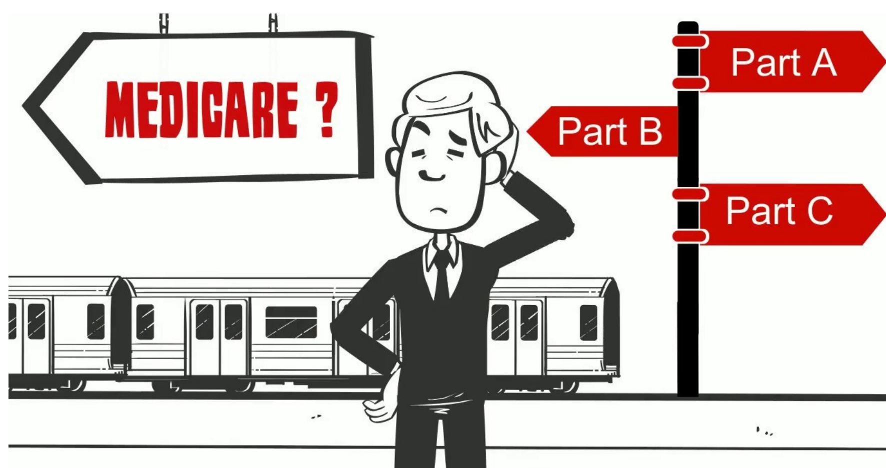
Who is the primary insurer? If your employer has 20 or more employees, your employer group health plan is primary and your Medicare coverage is secondary. If your employer has fewer than 20 employees, your Medicare coverage is primary and your employer group health plan is secondary.

Your employer can tell you more about how your group health coverage works with Medicare.

Should you wait to enroll in Medicare?
Medicare Part A helps pay for inpatient hospital care as well as skilled nursing facility, hospice, and home health care. Because Medicare hospital insurance is free for most people, you may want to enroll in Part A even if you have employer coverage. It could be helpful to have both types of insurance to fill any coverage gaps. However, if you have to pay for Part A, you'll need to factor the cost of premiums into your decision.

Medicare Part B medical insurance, which helps pay for physician services and outpatient expenses, requires premium payments, so it would be wise to compare the costs and benefits of Medicare to your employer's plan. If you're satisfied with your employer coverage, you may be able to wait to enroll in Part B.

Late-enrollment penalties typically apply if you do not enroll in Medicare Part A and Part B when you are first eligible. However, if you are covered by a group health plan based on current employment, these penalties generally do not apply as long as you follow certain rules. You can sign up for Medicare Part A and/or Part B at any time as long as you are covered by a group health plan through your own employment or your spouse's employment. When you stop working or your coverage ends, you have eight months to sign up without penalty. This eight-month period starts the month after your employment ends or the month after your employer group health coverage ends (whichever occurs first).



What if you have an HSA?
If you have a high-deductible health plan through work, keep in mind that you cannot contribute to a health savings account (HSA) after you enroll in Medicare (A or B). The good news is that the HSA is yours, even if you can no longer contribute to it, and you can use the tax-advantaged funds to pay Medicare premiums and other qualified medical expenses. So it might be helpful to build your HSA balance before enrolling in Medicare.

Whether you should opt out of premium-free Part A in order to contribute to an HSA depends on what you consider to be more valuable: secondary hospital insurance coverage or tax-advantaged contributions to pay future expenses. HSA funds can be withdrawn free of federal income tax and penalties provided the money is spent on qualified health-care expenses. HSA contributions and earnings may or may not be subject to state taxes.

How are Medicare claims handled?
Once you enroll in Medicare, tell your health-care providers that you have coverage in addition to Medicare to help ensure that claims are submitted properly. You can also contact the Medicare Benefits Coordination & Recovery Center (BCRC) at (855) 798-2627 if you have questions about how your claims will be handled.

Medicare rules are complex, and these are only guidelines. Different rules and considerations apply if you have retiree health coverage through your former employer (or your spouse's employer) or other types of health coverage. For more detailed information, visit medicare.gov.

From Data Breaches to Ransomware: How to Avoid Becoming the Victim of a Cybercrime

Each time you connect to the Internet, you risk becoming the victim of a cybercrime. It's the price we pay for living in a digital world — whether it's at home, at work, or on your smartphone.

According to the Identity Theft Resource Institute, the number of U.S. data breaches in 2016 increased by 40%. And as recently as May 2017, a widespread "ransomware" attack targeted personal computers across the globe. While software companies are continually developing strategies to combat the latest cybercrimes, there are some steps you can take to help protect yourself online.

The stronger, the better

It's a scary thought — most of us have a large amount of financial and personal information that's readily accessible through the Internet, in most cases protected by nothing more than a username and password.

Create a strong password by using a combination of lower- and upper-case letters, numbers, and symbols or by using a random phrase. Avoid using a password with your personal information such as your name and address. In addition, have a separate and unique password for each account or website that you use.

If you have trouble keeping track of all your password information or you want an extra level of password protection, consider using password management software. Password manager programs generate strong, unique passwords that you control through a single master password.

Follow the 3-2-1 rule

Backing up your online data is critical to avoid losing valuable information due to a cyber attack. If you have digital assets that you don't want to risk losing forever, you should back them up regularly. This pertains to data stored on both personal computers and mobile devices.

When backing up data, a good rule to follow is the 3-2-1 rule. This rule helps reduce the risk that any one event — such as a computer hacker gaining access to your computer — will compromise your primary data and backups. In order to follow the 3-2-1 rule:

- Have at least three copies of your data (this means a minimum of the original plus two backups)
- Use at least two different formats (e.g., hard drive and cloud-based service)
- Ensure that at least one backup copy is stored in a separate location (e.g., safe-deposit box)

Stay one step ahead

Finally, the best way to avoid becoming the victim of a cybercrime is to stay one step ahead of the cybercriminals. Here are some extra precautions you can take before you go online:

Consider two-step authentication

Two-step authentication, which involves using a text or email code along with your password, provides another layer of protection for your sensitive data.

Keep an eye on your accounts

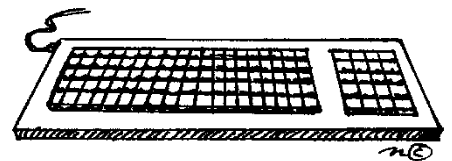
Notify your financial institution immediately if you see suspicious activity. Early notification not only can stop the cyber thief but may limit your financial liability.

Think twice before clicking

Beware of emails containing links or asking for personal information. Never click on a link in an email or text unless you know the sender and have a clear idea where the link will take you.

Be careful when you shop

When shopping online, look for the secure lock symbol in the address bar and the letters *https:* (as opposed to *http:*) in the URL. Avoid using public Wi-Fi networks for shopping, as they lack secure connections.



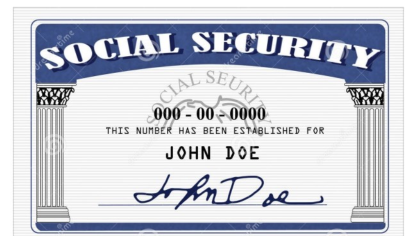
Is the Social Security Administration Still Mailing Statements?

Your Social Security Statement provides important information about your Social Security record and future benefits. For several years, the Social Security Administration (SSA) mailed these statements every five years to people starting at age 25, but due to budgetary concerns, the SSA has stopped mailing Social Security Statements to individuals under age 60.

Workers age 60 and over who aren't receiving Social Security benefits will still receive paper statements in the mail, unless they opt to sign up for online statements instead. If you're age 60 or older, you should receive your statement every year, about three months before your birthday. The SSA will mail statements upon request to individuals under age 60.

However, the quickest way to get a copy of your Social Security Statement is to sign up for a *my*Social Security account at the SSA website, ssa.gov. Once you've signed up, you'll have immediate access to your statement, which you can view, download, or print. Statement information generally includes a projection of your retirement benefits at age 62, at full retirement age (66 to 67), and at age 70; projections of disability and survivor benefits; a detailed record of your earnings; and other information about the Social Security program.

The SSA has recently begun using a two-step identification method to help protect *my* Social Security accounts from unauthorized use and potential identity fraud. If you've never registered for an online account or haven't attempted to log in to yours since this change, you will be prompted to add either your cell phone or email address as a second identification method. Every time you enter your account username and password, you will then be prompted to request a unique security code via the identification method you've chosen, and you need to enter that code to complete the log-in process.



Five Common Financial Aid Myths

At Financial Solutions you'll find a fee-only Registered Investment Advisor (RIA) committed to putting your interests and your needs first, eliminating the commissions and self-serving incentives that get in the way of solid, successful financial planning and investment management.

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With some private colleges now crossing the once unthinkable $70,000-per-year mark in the 2017/2018 school year, and higher costs at public colleges too, financial aid is essential for many families. How much do you know about this important piece of the college financing puzzle? Consider these financial aid myths.

1. My child won't qualify for aid because we make too much money
Not necessarily. While it's true that family income is the main factor in determining aid eligibility, it's not the only factor. The number of children you'll have in college at the same time is a significant factor — for example, having two children in college will cut your expected family contribution (EFC) in half. Your assets, overall family size, and age of the older parent also play into the equation.

Side note: Even if you think your child won't qualify for aid, you should still consider filing the government's Free Application for Federal Student Aid (FAFSA) for two reasons. First, all students — regardless of income — who attend school at least half-time are eligible for unsubsidized federal Direct Loans, and the FAFSA is a prerequisite for these loans. ("Unsubsidized" means the student pays the interest during college, the grace period, and any loan deferment periods.) So if you want your child to have some "skin in the game" by taking on a small student loan, you'll need to file the FAFSA. Second, the FAFSA is *always* a prerequisite for college need-based aid and is *sometimes* a prerequisite for college merit-based aid. Bottom line? It's usually a good idea to file this form.

2. The form is too hard to fill out
Not really. Years ago, the FAFSA was cumbersome to fill out. But now that it's online at fafsa.ed.gov, it is much easier to complete. The online version has detailed instructions and guides you step by step. There is also a toll-free number you can call with questions: 1-800-4-FED-AID. All advice is free. In addition, a recent change has made the FAFSA even easer to fill out: The FASFA now relies on your tax information from two years prior rather than one year prior (referred to as the "prior-prior year" or the "base year"). For example, the 2017/2018 FAFSA relies on your 2015 tax information, the 2018/2019 FAFSA relies on your 2016 tax information, and so on. This means that your tax numbers will be handy as you answer questions on the FAFSA. The first time you file the FAFSA, you and your child will need to create an FSA ID, which consists of a username and password.

Side note: The CSS/Financial Aid PROFILE, an additional aid form required by most private colleges, is more detailed than the FAFSA and thus harder to fill out. It essentially takes a financial snapshot of your family's past year, current year, and upcoming year (it asks for estimates for the latter).

3. If my child applies to a more expensive school, we'll get more aid
Not necessarily. Colleges determine your EFC based on the income and asset information you provide on the FAFSA and, where applicable, the CSS PROFILE. Your EFC stays the same no matter what college your child applies to. The difference between the cost of a particular college and your EFC equals your child's financial need (sometimes referred to as "demonstrated need"). The more expensive a college is, the greater your child's financial need. But a greater financial need doesn't automatically translate into a bigger financial aid package — colleges aren't obligated to meet 100% of your child's financial need.

Side note: When making a college list, your child can research a particular college's generosity, including whether it meets 100% of demonstrated need and if it replaces federal loan awards with college grants in its aid packages.

4. We own our home, so my child won't qualify
The FAFSA does not take home equity into account when determining a family's expected family contribution (it also does not consider the value of retirement accounts, cash value life insurance, and annuities).

Side note: The CSS PROFILE does collect home equity and vacation home information, and some colleges may use it when distributing their own institutional aid.

5. I lost my job after I submitted aid forms, but there's nothing I can do now
Not true. If your financial circumstances change after you file the FAFSA — and you can support this with documentation — you can politely ask the financial aid officer at your child's school to revisit your aid package; the officer has the authority to make adjustments if there have been material changes to your family's income or assets.

Side note: A blanket statement of "I can't afford my family contribution" is unlikely to be successful unless it is accompanied by a significant changed circumstance that affects your ability to pay.

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