Footsteps

News To Help You Along Your Pathway of Life

FALL 2017

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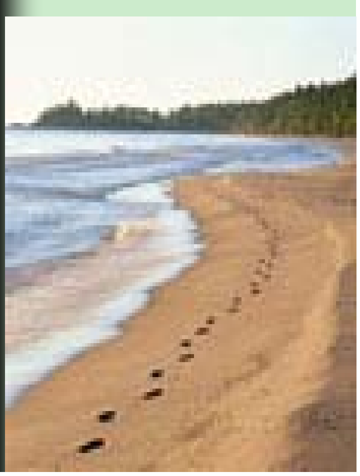

The Equifax Data Breach

The recent news that Equifax's database has been hacked has prompted phone calls and emails from concerned clients. We want to share some information with you about the breach, Equifax's current course of action and, most important, what you can do to protect yourself.

According to Equifax, the breach lasted from mid-May through July. Hackers targeted people's names, Social Security numbers, birth dates, addresses, driver's license numbers and credit card numbers. This breach has affected 143 million people across the US, UK, and Canada. Equifax will send correspondence by MAIL to those who were exposed. The company has put a tool on their website, www.equifaxsecurity2017.com to check your potential impact and has made a free credit monitoring services available to those affected.

To find out if your information was exposed, click on the "Potential Impact" tab on the Equifax site and enter your last name and the last six digits of your Social Security number. Your Social Security number is sensitive information, so make sure you're on a secure computer[1] and an encrypted network[2] connection any time you enter it. The site will tell you if you've possibly been affected by this breach.

If your information has been compromised by the Equifax breach, it could be years before your data could be used illegally, so you must plan to be diligent for the long term. This includes reviewing your monthly bank and credit card statements along with your credit report for possible identity theft. In the meantime, be wary of any emails you receive that are purportedly from Equifax and suggest you click on this or that link. The security breach is a perfect opportunity for fraudsters pretending to be from Equifax to prey upon the chance to steal your identity and/or compromise your computer's security. The best thing to do, always, when you receive and email from any business who asks you to click on their link is to instead find the company's website and follow any links you find there.

So what can you do now?

1. Check your credit report at www.annualcreditreport.com. Consumers are entitled to one credit report from each of the three reporting agencies each year.[3] We recommend downloading a report from a different agency every three to four months. You can download a report from Experian today, TransUnion in January, and Equifax in May to monitor your credit year-round without charge.
2. Stop pre-screened credit offers to limit future exposure by calling 888-5OPTOUT (888-567-8688) or you can opt out online at www.optoutprescreen.com.
3. Place a CREDIT FREEZE on your account. A credit freeze restricts the ability of new creditors to access your credit information but it does not prevent current creditors from accessing your credit report. In other words, if you already have an account with Chase, an identity thief may still be able to open an account with them since they are not a "new" creditor. You must contact each of the three reporting agencies individually, Equifax (800) 349-9960, Experian (888) 397-3742 and TransUnion (888) 909-8872, to initiate a freeze. A credit freeze can be temporarily lifted then put back in place if you are actively seeking credit by using a PIN given at the time you set up the freeze. MAKE SURE to put your PIN in a secure place as you CANNOT unlock the freeze without it.
4. Put a fraud alert on your files.[4] A fraud alert warns creditors that you may be an identity theft victim. The creditor must then verify the identity of anyone seeking credit in your name before your credit card information can be released.
5. Last, but not least, file your income taxes early each year and be sure to respond to any IRS correspondence immediately. Doing so will limit the ability of scammers to use your Social Security number to get a tax refund in your name.

[1] *https://www.consumer.ftc.gov/articles/0009-computer-security*
[2] *https://www.consumer.ftc.gov/articles/0014-tips-using-public-wi-fi-networks*
[3] *https://www.annualcreditreport.com/index.action*
[4] *https://www.consumer.ftc.gov/articles/0275-place-fraud-alert*

Charles Cheryl Matt

Kickstart Your College Fund with a 529 Plan

If you're looking to save money for college, one option to consider is a 529 college savings plan. Created over 20 years ago and named after the section of the tax code that governs them, 529 plans offer a unique combination of features that have made them the 401 (k)s of the college savings world.

How do 529 plans work?

529 college savings plans are individual investment-type accounts specifically made for college savings. People at all income levels are eligible. Plans are offered by individual states (you can join any state's plan) but managed by financial institutions designated by each state.

To open an account, you select a plan and fill out an application, where you will name an account owner and beneficiary (there can be only one of each), choose your investment options, and set up any automatic contributions. You are then ready to go. It's common to open an account with your own state's 529 plan, but there may be reasons to consider another state's plan; for example, the reputation of the financial institution managing the plan, the plan's investment options, historical investment performance, fees, customer service, website usability, and so on.

A plan's investment options typically consist of portfolios of various mutual funds that vary from conservative to aggressive in their level of risk. Depending on the market performance of the options you've chosen, your account will either gain or lose money, and there is the risk that the investments will not perform well enough to cover college costs as anticipated.

Benefits

So why bother going to the trouble of opening a 529 account when you could choose your own mutual funds (or other investments) in a non-529 account?

Federal tax benefits: Contributions to a 529 plan accumulate tax deferred, which means no income tax is due on any capital gains or dividends earned along the way. Later, earnings are completely tax-free when a withdrawal is used to pay the beneficiary's college expenses - a benefit that could be significant depending on how your investment options perform. States generally follow this federal tax treatment and may offer an income tax deduction for contributions. That's why it's important to know what 529 tax benefits your state offers and whether those benefits are contingent on joining the in-state 529 plan.

Contributions: You can contribute a lot to a 529 plan - lifetime contribution limits are typically $300,000 and up. Compare this to the small $2,000 annual limit allowed by Coverdell Education Savings Accounts. In addition, 529 plans offer a unique lump-sum gifting feature that some may find particularly compelling: Individuals can contribute a lump-sum amount of up to five years' worth of the $14,000 annual gift tax exclusion - a total of $70,000 in 2017 - and avoid gift tax if they make a special election on their tax return and avoid making any other gifts to that beneficiary during the five-year period. Married couples, such as grandparents who want to contribute to their grandchild's college fund, can make a joint lump-sum gift up to $140,000 that is tax-free.

College account on autopilot: For college savers who are too busy or inexperienced to choose their own investments or change their asset allocation over time, a 529 college savings plan offers professional money management. And by having a designated account for college savings, you segregate those funds and possibly lessen the temptation to dip into them for a non-college purpose - a scenario that may be more likely if you are using a general savings account to save for college. Finally, by setting up automatic monthly contributions to your 529 account, you can put your savings effort on autopilot.

Tradeoffs

Non-college use of funds: The federal tax benefits of 529 plans can be great if you use the funds for college. If you don't, then the earnings portion of any withdrawal is subject to federal income tax at your rate *and* a 10% federal penalty.

Changing investment options: With a 529 plan, you're limited to the investment options offered by the plan. Plans generally offer a range of static and age-based portfolios with different levels of risk, fees, and investment goals. (Age-based portfolios generally have a "glide path" where the underlying investments automatically become more conservative as the beneficiary approaches college age.) If you're unhappy with the performance of the options you've chosen, under federal law you can change the investment options for your *future* contributions at any time, but you can change the options for your *existing* contributions only twice per calendar year. This rule can make it difficult to respond to changing market conditions. However, also under federal law, once every 12 months you can roll over your existing 529 plan account to a new 529 plan without having to change the beneficiary, which gives you another option if you're unhappy with your current plan's investment options or returns.

Assets hit $266 billion mark
As of March 2017, assets in 529 college savings plans reached $266 billion, spread over 12.2 million accounts.

Source: Strategic Insight, 1Q 2017 529 Data Highlights

Before investing in a 529 plan, you should consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read carefully. The official disclosure statements and applicable prospectuses - which contain this and other information about the investment options, underlying investments, and investment company - can be obtained by contacting your financial professional. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with a 529 plan.

Pathway Financial Services

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Five Common Financial Aid Myths

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 necessary 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 for aid
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.

Net price calculators

Net price calculators, available on all college websites, provide families with an advance estimate of what their "net" price will be at a particular college based on their income, assets, and personal family information. The net price is the price after grants and scholarships are factored in. This figure gives families a much better idea of the real cost of a particular college so they can make well-informed financial decisions.

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"Our mission is to help our clients realize their financial goals with compassion and integrity as they travel their pathway of life."

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