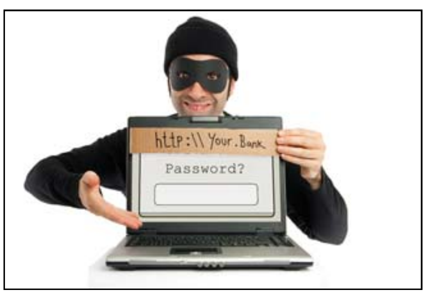
The COMPASS Chronicle

Spring 2016 | *Highlighting important wealth management issues*

Don't Be Victimized By These 10 Common Scams

Scams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. In particular, older Americans are being targeted, especially those who have been recently widowed. With that in mind, here are 10 scams to watch out for:

1. IRS imposters. This scam proliferates during tax-return season. A caller will say he or she is an IRS agent and claim you owe back taxes. Then the caller threatens you with stiff penalties or a lawsuit—and even arrest—if you don't wire the money immediately. But the IRS doesn't call debtors without sending a notice via U.S. mail first. To be on the safe side, if you get such a call, check with the IRS at 1-800-829-1040 to check the caller's credentials.



2. Tech support. Typically, you receive a phone call purporting to be from Microsoft or another software company, and the caller says a virus has invaded your computer. Then you're asked to provide access to your computer and the hacker installs malware that steals personal information. These software companies don't make unsolicited phone calls, so hang up immediately.

3. Robo-calls. Are you a victim of those annoying automatic telephone calls? Although the call itself isn't an attempt at ID theft, it helps the crooks build a "go-to list" for future phone scams. Use your caller ID to screen calls and don't answer if someone is calling from a number you don't know.

4. Charitable solicitations. Many legitimate charities call on the phone so it's hard to weed out the real ones from the fakes. Investigate any charity before handing over cash or making a credit or debit card contribution by mail or online. If the charity is for real, the caller won't hesitate to provide additional information. Check out charities at www.charitynavigator.org.

5. Credit cards. It's not surprising that scam artists are working an angle as credit card companies change their cards from magnetic strips to chips. Someone impersonating a credit card company employee may request information or ask you to click on a link to update your status. But credit card companies don't operate this way. If you have any doubts, call the company directly.

6. Dating websites. Initially, scams were based on prying money or sensitive data out of single people who recently have entered the dating scene. But now it has mushroomed into more sophisticated cons aimed at newcomers to religion-based sites. Because you're "dating" someone from your faith, you may be more likely to let your guard down and give access to money.

7. Widows and widowers. A typical trick of con artists is to prey on your emotions. Of course, elderly individuals are especially vulnerable

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COMPASS Corner

Louis E. Conrad II, CFA®

Welcome to the Spring 2016 edition of *The COMPASS Chronicle*. Springtime is a season of reawakening, as plants come to life in shades of green and other vibrant colors, and birds are revitalized, sharing their enthusiasm for the warmer weather with their animated songs.

While perhaps not sharing the same beauty, global stock markets have also experienced a resurgence lately, after declining into mid-February. Stocks have recouped their early decline, when investors were concerned over a global growth slowdown. As we outlined to clients via e-mail in late January, "COMPASS believes that this sell-off has been fueled not by deteriorating fundamental economic conditions, but by unfounded fears of issues that have been known for months, including China's economic growth deceleration and commodity price declines, particularly oil." We advised clients that "it is prudent to take advantage of investor anxiety given the economic backdrop" by investing any excess cash. Thankfully, the stock markets around the world have rebounded and the prior pessimism has been replaced with cautious optimism.

I am also pleased to announce growth in COMPASS' staff! In March, Janet Wheeler, CFA®, joined COMPASS as a Senior Wealth Manager. Her addition provides clients with added depth and breadth of experience, as well as provides senior-level backup. Janet and I will work together on client engagements and her addition will also help support the growth that COMPASS continues to enjoy.

Women Save More For Retirement Than Men But Have Less

Question: Are men or women more likely to invest in retirement savings plans at work?

Answer: 73 percent of women employees participate in such plans while only 66 percent of men do.

Question: Do men or women put more of their employment income into retirement savings accounts?

Answer: Women put 7 percent of their salary into retirement savings while men stash away 6.8 percent.

Question: Are men or women more likely to invest their retirement savings in the stock market?

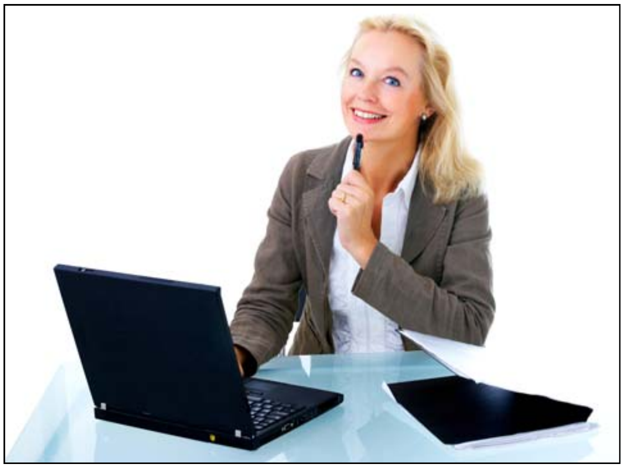
Answer: Women are just as aggressive as men when it comes to investing their money for retirement, with women investing 73 percent of their savings in equities compared to 74 by men.

Despite these statistics – compiled and reported by the research department at Vanguard – women still come up short in the all-important area of account balances.

Jean Young, senior research analyst at Vanguard and author of the report, says that in March 2015, women held an average of $79,572 in defined contribution retirement plans as compared to an average of $123,262 held by men. The median balances, for women and men, were $24,446 and $36,875, Young says.

"Women seem to be a bit better at (retirement saving) than men. They're more likely to save, and when they save, they save more," she adds.

Then what is behind these discrepancies? The glass ceiling is partly responsible. To this day, women still make less money on average than men even when they're doing the same kind of work.



In addition, because men make more money than women, it tends to be easier for them to save more money over time. Young says that when the Vanguard researchers adjusted their data to account for disparities in income, the savings balance differences almost vanished, except for workers at the very top end of the income picture.

Why do differences persist at the top of the income scale? Young believes that may be because men are likely to have spent more of their careers in high-paying jobs compared with women. That may give the well-paid men more years to put away substantial retirement savings.

Another reason women may lag behind overall is access to retirement savings plans. Lower-paid workers and part-time employees—and women are likely to fall into both categories—frequently can't participate in such plans.

Another study, by the Employee Benefits Research Institute, found that the gender pay gap also can be explained by the kinds of jobs men and women gravitate to. Women in the past have frequently applied for jobs at the bottom end of the employment spectrum, and often chose part-time work because of their other responsibilities.

Young says these findings are a reminder that women need to negotiate for better salaries when applying for jobs or promotions. ●

7 Tax Breaks Set To Last Forever

After years of passing "tax extender" laws, Congress finally enacted tax legislation in 2015—the Protecting Americans from Tax Hikes (PATH) Act—that permanently restores several key tax breaks for individuals. These seven tax provisions are now a permanent part of the tax code until, if ever, Congress changes them. They are:

1. American Opportunity Tax Credit. Before PATH, parents could claim a maximum $2,500 American Opportunity Tax Credit (AOTC) for qualifying higher education expenses, subject to phase-outs based on modified adjusted gross income (MAGI). But the maximum credit was scheduled to drop to $1,800 in 2017 with lower phase-out levels. The new law preserves the higher AOTC.

2. Sales tax deduction. Before 2015, taxpayers could choose to deduct state and local sales taxes instead of claiming the usual deduction for state and local income taxes. This optional deduction, especially valuable if your state has no income tax, has been restored retroactively for 2015 and made permanent.

3. IRA transfers to charity. Under a provision that had expired, if you were over age 70½ you could transfer up to $100,000 ($200,000 as a married couple) directly from an IRA to charity—including amounts paid as required minimum distribution (RMDs)—with no tax consequences. The PATH Act restores this rule for 2015 and makes it permanent.

4. Conservation deductions. If you grant a conservation easement for property you own, you get a deduction based on the easement's value. Previously, that deduction could be for as much as 50% of AGI (100% for farmers and ranchers), rather than the usual 30% limit, and there was a 15-year carry forward period for excess amounts instead of five years. Both enhancements are restored

Section 529 Plans Are Getting Even Better

For parents saving for their children's college education, a Section 529 plan may offer several advantages. Now a new tax law—the Protecting Americans from Tax Hikes (PATH) Act of 2015—enhances those potential 529 benefits.

Section 529 plans, operated by individual states, let families set aside money to cover future education expenses of account beneficiaries. If certain requirements are met, investments in the plan grow without being eroded by current taxes, and distributions to pay "qualified" expenses—which include tuition, fees, books, supplies, equipment, and room and board for full-time students—also aren't taxed.

Now the PATH Act permanently extends a rule treating computers and related equipment as qualifying college expenses. This provision had expired after 2014, but was restored retroactive to 2015 and made permanent

There are two main types of 529s: prepaid tuition plans and college savings plans.

1. Prepaid tuition plans. This type of plan is designed to keep pace with the rising cost of college tuition. Suppose it currently costs $25,000 a year to send a child to a state university. You can spend $25,000 now to buy shares in the plan for an eight-year-old. When the child is ready to go to college in 10 years, the shares you bought will pay for an entire year of tuition—no matter what it costs at that point. (You don't have to make a single big initial deposit to a prepaid plan. Later contributions will be credited according to the costs that prevail at the time.)

A prepaid tuition plan ensures that the money you put in will grow to keep up with rising costs. And returns tend to be far higher than those on most conservative investments. You don't risk losing your principal, and your investment generally is guaranteed by the state.

2. College savings plans. In contrast to a prepaid tuition plan, a college savings plan doesn't guarantee that your returns will keep pace with rising college costs. But these plans have the potential to produce higher returns than a prepaid plan depending on the performance of the investments you choose.

Usually, these 529s offer an asset allocation strategy geared to the current age of beneficiaries or the year when they'll enter school. Such strategies may use more aggressive investments in the early years and switch to more conservative options later.

You're not obligated to use a Section 529 college savings plan for a college in your state, and you're free to use another state's plan if you like its features. Keep in mind, though, that in-state plans may offer state income tax deductions or other benefits for residents.

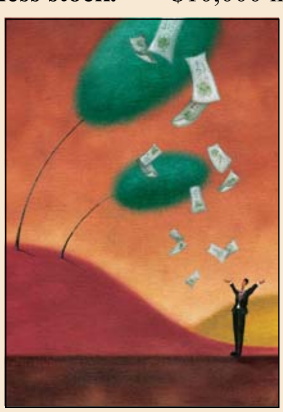
These plans also offer flexibility if an intended beneficiary doesn't go to college or if there's money left over after graduation. In either case, you can switch to a different beneficiary. Typically, a plan will allow one such change a year.

The PATH Act includes a couple of other significant changes in this area. For one thing, it adjusts a rule relating to taxable distributions for *non-qualified* expenses. Under the new law, each such distribution will be taxable based on the amount only in that particular account, rather than in all the Section 529 accounts you've established. In addition, if a Section 529 plan distribution is used to pay for tuition and subsequently is refunded—for example, if your child leaves school—the new law permits you to contribute that amount to another 529 plan within 60 days.

Finally, a Section 529 plan also offers gift-tax advantages. Normally, you can give anyone up to a specified amount—$14,000 in 2016—without owing gift tax. That amount is doubled to $28,000 for joint gifts from a married couple. But with 529s, you can contribute an amount equal to five years' worth of gifts if a proper gift tax return is filed. That means you could put $70,000 in an account for one beneficiary—or $140,000 if you give with your spouse—completely free of gift tax. ●

permanently, retroactive to 2015.

5. Qualified small business stock. Under a former law, investors could exclude 100% of the gain from the sale of qualified small business stock (QSBS) that they acquired before 2015. That amount was scheduled to drop to 50% for QSBS purchased after 2014. Now the 100% exclusion is permanent.



6. Child tax credit. Parents had been entitled to a child tax credit of up to $1,000, subject to a phase-out, with an additional refundable credit of 15% of earned income that exceeded $3,000. But that threshold was set to increase to $10,000 in 2017. The PATH Act restores the lower threshold and makes it permanent.

7. Educator expenses. Finally, teachers and other educators had been able to deduct up to $250 of their out-of-pocket classroom expenses. The new law restores this deduction, retroactive to 2015, and makes it permanent. Future maximums will increase with inflation.

The PATH Act also extends other individual tax breaks, as well as business provisions, and makes some of them permanent. ●

5 Reasons To Amend Your Estate Plan

It's 2016...do you know where your estate plan is? If you're like most busy people, you may have made a will, perhaps when your children were born, and it's possible you've taken other steps to lay out what will happen after you're gone. But frequently those plans are just gathering dust.

Now's a good time to crack open the vault and take a closer look. Typically, your estate plan will need a minor update, and in some cases a complete overhaul may be in order. Consider these five reasons to revise your plan:

1. Family changes: Your personal situation may have shifted because of a divorce, a separation, or the death of a spouse. You might want to add or subtract beneficiaries to trusts or estates if children or grandchildren have been born since you created your estate plan or if a beneficiary has died. Or your intended heirs may have married or divorced, further complicating matters.

2. Financial changes: When you created your estate plan, you probably owned fewer assets or different assets than you have now. You may need to revise your will or trust documents, especially if the value has changed dramatically. Or perhaps you've acquired a business interest or sold one—another potentially big change to your financial status. A job loss or change also could have an impact on your plan.

3. Tax law changes: It seems like the federal estate tax law is amended every other year, so it's important to keep abreast of the latest developments. For instance, your estate plan may not reflect the ever-increasing federal estate tax exemption. The exemption, which was $650,000 a decade and a half ago, has ballooned to $5.45 million for someone who dies in 2016. Other tax law provisions, such as the "portability" of exemptions between the estates of you and your spouse, also may need to be addressed.

4. Geographic changes: If you've pulled up stakes and moved the homestead, maybe downsizing to a place in a warmer climate, this significant change also probably needs to be reflected in your estate plan—especially if you've moved to a state with substantially different tax laws.

5. Personal changes: Finally, you may have had a change of heart about beneficiaries or developed different priorities or preferences. For example, you might decide to cut a daughter-in-law or son-in-law out of your will or decide to attach conditions to particular gifts or bequests. It's your estate plan, so you can "fix" it however you like.

Of course, you don't have to undertake all of this on your own. Rely on your financial, tax, and legal advisers for guidance. ●

10 Common Scams

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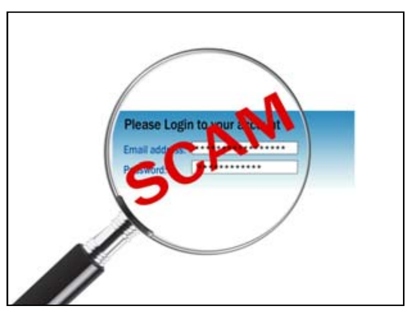
after the death of a loved one. It's not unusual for a criminal to pretend to be a banker or other professional to coerce you to hand over funds. Rely on reputable financial planners you know and trust and close family members to steer you in the right direction.

8. Medical ID theft. ID theft often is associated with financial information, but loss of medical information can be just as damaging. Just imagine someone running up costs for expensive drugs, doctor visits, and even surgery under your name. What's more, unlike theft of credit card data, you're often held liable for these purchases. Don't volunteer your particulars (for example, Social Security and insurance account numbers) unless you're certain it's for a valid reason. Check with your insurer about any charges you don't understand.

9. Gift card vouchers. If you're targeted for this scam, you receive an unsolicited email offering you a free gift card from a well-known retailer or restaurant if you click on a link. It can look legitimate—the scammers will go to great lengths to replicate logos and corporate designs—but often it isn't. Clicking on the link will install malware on your computer that can siphon away personal data. No matter how appealing an offer is, don't click on links you have not verified.



10. Counterfeit apps. Finally, in a highly publicized incident, Apple developed some applications that were found to contain vicious malware that spied on consumers. While Apple believes it has purged these malicious apps, similar occurrences could lead to loss of personal data. Try to use only well-known apps and consider reading reviews before purchasing them.

These are just 10 of the scams currently making the rounds. Be on your guard and be skeptical of anything that doesn't seem just right. ●