



# Waypoint Monthly

## *Brought to you by Our Team*

### Four Numbers You Need to Know Now



When it comes to your finances, you might easily overlook some of the numbers that really count. Here are four to pay attention to now that might really matter in the future.

least annually to check the accuracy of the information upon which your credit score is based. You're entitled to one free copy of your credit report every 12 months from each of the three credit reporting agencies. You can get your copy by visiting [annualcreditreport.com](http://annualcreditreport.com).

#### 1. Retirement plan contribution rate

What percentage of your salary are you contributing to a retirement plan? Making automatic contributions through an employer-sponsored plan such as a 401(k) or 403(b) plan is an easy way to save for retirement, but this out-of-sight, out-of-mind approach may result in a disparity between what you need to save and what you actually are saving for retirement. Checking your contribution rate and increasing it periodically can help you stay on track toward your retirement savings goal.

Some employer retirement plans let you sign up for automatic contribution rate increases each year, which is a simple way to bump up the percentage you're saving over time. In addition, try to boost your contributions when you receive a pay raise. Consider contributing at least enough to receive the full company match (if any) that your employer offers.

#### 2. Credit score

When you apply for credit, such as a mortgage, a car loan, or a credit card, your credit score is one of the tools used by lenders to evaluate your creditworthiness. Your score will likely factor into the approval decision and affect the terms and the interest rate you'll pay.

The most common credit score that creditors consider is a FICO® Score, a three-digit number that ranges from 300 to 850. This score is based on a mathematical formula that uses information contained in your credit report. In general, the higher your score, the lower the credit risk you pose.

Each of the three major credit reporting agencies (Equifax, Experian, and TransUnion) calculates FICO® scores using different formulas, so you may want to check your scores from all three (fees apply). It's also a good idea to get a copy of your credit report at

#### 3. Debt-to-income ratio

Your debt-to-income ratio (DTI) is another number that lenders may use when deciding whether to offer you credit. A DTI that is too high might mean that you are overextended. Your DTI is calculated by adding up your major monthly expenses and dividing that figure by your gross monthly income. The result is expressed as a percentage. For example, if your monthly expenses total \$2,200 and your gross monthly income is \$6,800, your DTI is 32%.

Lenders decide what DTIs are acceptable, based on the type of credit. For example, mortgage lenders generally require a ratio of 36% or less for conventional mortgages and 43% or less for FHA mortgages when considering overall expenses.

Once you know your DTI, you can take steps to reduce it if necessary. For example, you may be able to pay off a low-balance loan to remove it from the calculation. You may also want to avoid taking on new debt that might negatively affect your DTI. Check with your lender if you have any questions about acceptable DTIs or what expenses are included in the calculation.

#### 4. Net worth

One of the key big-picture numbers you should know is your net worth, a snapshot of where you stand financially. To calculate your net worth, add up your assets (what you own) and subtract your liabilities (what you owe). Once you know your net worth, you can use it as a baseline to measure financial progress.

Ideally, your net worth will grow over time as you save more and pay down debt, at least until retirement. If your net worth is stagnant or even declining, then it might be time to make some adjustments to target your financial goals, such as trimming expenses or rethinking your investment strategy.

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#### June 2017

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## Student Loan Debt: It Isn't Just for Millennials



### The intersection of student loan debt and Social Security benefits

Since 2001, the federal government has collected about \$1.1 billion from Social Security recipients to cover unpaid federal student loans, including \$171 million in 2015 alone. During that time, the number of Americans age 50 and older who have had their Social Security benefits reduced to pay defaulted federal student loans has risen 440%.

Source: *The Wall Street Journal*, *Social Security Checks Are Being Reduced for Unpaid Student Debt*, December 20, 2016

It's no secret that today's college graduates face record amounts of debt. Approximately 68% of the graduating class of 2015 had student loan debt, with an average debt of \$30,100 per borrower — a 4% increase from 2014 graduates.<sup>1</sup>

A student loan debt clock at [finaid.org](http://finaid.org) estimates current outstanding student loan debt — including both federal and private student loans — at over \$1.4 trillion. But it's not just millennials who are racking up this debt.

According to the Consumer Financial Protection Bureau (CFPB), although most student loan borrowers are young adults between the ages of 18 and 39, consumers age 60 and older are the fastest-growing segment of the student loan market.<sup>2</sup>

### Rise of student debt among older Americans

Between 2005 and 2015, the number of individuals age 60 and older with student loan debt quadrupled from about 700,000 to 2.8 million. The average amount of student loan debt owed by these older borrowers also increased from \$12,100 to \$23,500 over this period.<sup>3</sup>

The reason for this trend is twofold: Borrowers are carrying their own student loan debt later in life (27% of cases), and they are taking out loans to finance their children's and grandchildren's college education (73% of cases), either directly or by co-signing a loan with the student as the primary borrower.<sup>4</sup> Under the federal government's Direct Stafford Loan program, the maximum amount that undergraduate students can borrow over four years is \$27,000 — an amount that is often inadequate to meet the full cost of college. This limit causes many parents to turn to private student loans, which generally require a co-signer or co-borrower, who is then held responsible for repaying the loan along with the student, who is the primary borrower. The CFPB estimates that 57% of all individuals who are co-signers are age 55 and older.<sup>5</sup>

### What's at stake

The increasing student loan debt burden of older Americans has serious implications for their financial security. In 2015, 37% of federal student loan borrowers age 65 and older were in default on their loans.<sup>6</sup> Unfortunately for these individuals, federal student loans generally cannot be discharged in bankruptcy, and Uncle Sam can and will get its money — the government is authorized to withhold a portion of a borrower's tax refund or Social Security benefits to collect on the debt. (By contrast,

private student loan lenders cannot intercept tax refunds or Social Security benefits to collect any amounts owed to them.)

The CFPB also found that older Americans with student loans (federal or private) have saved less for retirement and often forgo necessary medical care at a higher rate than individuals without student loans.<sup>7</sup> It all adds up to a tough situation for older Americans, whose income stream is typically ramping down, not up, unlike their younger counterparts.

### Think before you borrow

Since the majority of older Americans are incurring student loan debt to finance a child's or grandchild's college education, how much is too much to borrow? It's different for every family, but one general guideline is that a student's overall debt shouldn't be more than his or her projected annual starting salary, which in turn often depends on the student's major and job prospects. But this is just a guideline. Many variables can impact a borrower's ability to pay back loans, and many families have been burned by borrowing amounts that may have seemed reasonable at first glance but now, in reality, are not.

A recent survey found that 57% of millennials regret how much they borrowed for college.<sup>8</sup> This doesn't mean they regretted going to college or borrowing at all, but it suggests that it would be wise to carefully consider the amount of any loans you or your child take out for college. Establish a conservative borrowing amount, and then try to borrow even less.

If the numbers don't add up, students can reduce the cost of college by choosing a less expensive school, living at home or becoming a resident assistant (RA) to save on room costs, or graduating in three years instead of four.

<sup>1</sup> The Institute for College Access & Success, *Student Debt and the Class of 2015*, October 2016

<sup>2-7</sup> Consumer Financial Protection Bureau, *Snapshot of Older Consumers and Student Loan Debt*, January 2017

<sup>8</sup> *Journal of Financial Planning*, September 2016





## Expect the Unexpected: What to Do If You Become Disabled



**About 20% of Americans live with a disability, and one in four of today's 20-year-olds will become disabled before retiring.**

**Source: SSA, Disability Facts, 2017**

**The average age of SSDI recipients in 2015 was 54.**

**Source: Fast Facts and Figures About Social Security, 2016**

In a recent survey, 46% of retirees said they retired earlier than planned, and not necessarily because they chose to do so. In fact, many said they had to leave the workforce early because of health issues or a disability.<sup>1</sup>

Although you may be healthy and financially stable now, an unexpected diagnosis or injury could significantly derail your life plans. Would you know what to do, financially speaking, if you suddenly became disabled? Now may be a good time to familiarize yourself with the following information, before an emergency arises.

### Understand any employer-sponsored benefits you may have

Disability insurance pays a benefit that replaces a percentage of your pay for a designated period of time. Through your employer, you may have access to both short- and long-term disability insurance. If your employer offers disability insurance, be sure to fully understand how the plan works. Review your plan's Summary Plan Description carefully to determine how to apply for benefits should you need them, and what you will need to provide for proof of disability.

Short-term disability protection typically covers a period of up to six months, while long-term disability coverage generally lasts for the length of the disability or until retirement. Your plan may offer basic coverage paid by your employer and a possible "buy-up" option that allows you to purchase additional coverage.

According to the Bureau of Labor Statistics, 40% of private industry workers have access to short-term disability insurance through their employers, while 33% have access to long-term coverage. For both types of plans, the median replacement amount is about 60% of pay, with most subject to maximum limits.<sup>2</sup>

### Consider a supplemental safety net

If you do not have access to disability insurance through your employer, it might be wise to investigate other options. It may be possible to purchase both short- and long-term group disability policies through membership in a professional organization or association. Individual policies are also available from private insurers.

You can purchase policies that cover you for life, until age 65, or for shorter periods such as two or five years. An individual policy will remain in force as long as you pay the premiums. Because many disabilities do not result in a complete inability to work, some policies offer a rider that will pay you partial benefits if you are able to work part-time.

Most insurance policies have a waiting period (known as the "elimination period") before you can begin receiving benefits. For private insurance policies, this period can be anywhere from 30 to 365 days. Group policies (particularly through your employer) typically have shorter waiting periods than private policies. Disability insurance premiums paid with after-tax dollars will generally result in tax-free disability benefits. On the other hand, if your premiums are paid with pre-tax dollars, typically through your employer, your benefit payments may be taxable.

### Review the Social Security disability process

The Social Security Administration (SSA) pays disability benefits through two programs: the Social Security Disability Insurance (SSDI) program and the Supplemental Security Income (SSI) program. SSDI pays benefits to people who cannot work due to a disability that is expected to last at least one year or result in death, and it's only intended to help such individuals make ends meet. Consider that the average monthly benefit in January 2017 was just \$1,171.

In order to receive SSDI, you must meet strict criteria for your disability. You must also meet requirements for how recently and how long you have worked. Meeting the medical criteria is difficult; in fact, according to the National Organization of Social Security Claimants' Representatives (NOSSCR), about two-thirds of initial SSDI applications are denied on their first submission. Denials can be appealed within 60 days of receipt of the notice.<sup>3</sup>

The application process can take up to five months, so it is advisable to apply for SSDI as soon as you become disabled. If your application is approved, benefits begin in the month following the six-month anniversary of your date of disability (as recorded by the SSA in your approval letter). Eligible family members may also be able to collect additional payments of up to 50% of your benefit amount.

SSI is a separate program, based on income needs of the aged, blind, or disabled. You can apply to both SSI and SSDI at the same time.

For more information, visit the Social Security Disability Benefits website at [ssa.gov](http://ssa.gov), where you will also find a link to information on the SSI program.

<sup>1</sup> [2016 Retirement Confidence Survey](#), Employee Benefit Research Institute

<sup>2</sup> Bureau of Labor Statistics, [National Compensation Survey](#), 2016

<sup>3</sup> [NOSSCR](#) web site, accessed March 2017



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## I'm thinking about buying a new home. Should I consider the risk of climate changes?

If you're thinking about buying a home, you probably have a checklist of qualities you're looking for as you shop around. But have you considered how environmental factors could affect your choice? In the event your dream home is in an area that could be affected by flooding or a storm surge, you'll have some additional factors to think about before you make your purchase.

**Do your research.** Seek information on the locations vulnerable to climate changes. Some of these regions are located in coastal areas. Climate changes have been linked to more severe weather events and rising sea levels, which increases the risk of frequent and major flooding. Even though there's uncertainty as to how much sea levels could rise in the future, it's still important that you know the risks. You can find more information on this subject on NASA's global climate change website at [climate.nasa.gov](http://climate.nasa.gov) or by reviewing FEMA's "Information for Policyholders" page at [fema.gov](http://fema.gov).

**Know your insurance options.** Generally, homeowners insurance does not cover floods.

This means you'll want to look into coverage options (and the cost) if you're relocating to an area susceptible to flooding. Many insurance companies participate in the National Flood Insurance Program (NFIP), which makes flood insurance available through a partnership with FEMA. Contact your homeowners insurance provider to learn more.

**Tour the home with weather-related and environmental risks in mind.** When you check out your potential home's features, think about safety. Will the home be able to withstand severe weather? Specifically, is the home equipped with hurricane shutters? Do the windows have special impact-resistant glass? What about a storm cellar? Is the roof in good condition? Are there many trees on the property?

Take time now to estimate the potential financial impact of owning a home in an area affected by the risk of climate changes, and it may help you avoid unexpected expenses and stress later.



## Should I purchase towing and rental reimbursement coverage for my car?

For many individuals, driving a car is a necessity. Whether you're driving to work or running errands on the weekend, not having your main source of transportation for even just a week or two can have a major impact on your daily routine. As a result, you'll want to make sure your transportation needs are properly covered in case your car is ever disabled or in an accident. Fortunately, in addition to standard auto insurance coverage, most insurers offer optional towing and rental reimbursement coverage for an additional cost.

You can usually purchase towing coverage for a small premium. This type of coverage will pay for any towing and labor charges (up to a specified limit) incurred when your vehicle is disabled. This coverage can be used any time your car breaks down — not just when it's in an accident. Keep in mind that the insurer usually pays only for labor performed (e.g., jump-starting a battery, changing a tire) at the location where your vehicle is disabled and does not cover actual repair work performed at a service station.

Towing coverage is convenient to have, especially if you travel a lot in your car. However, if you already have roadside assistance through another source (e.g., a road and travel plan), you may not need to purchase towing coverage.

Rental reimbursement coverage pays a set amount per day for the cost of a rental car if your car is being repaired because of an accident that is covered under your auto insurance policy (some policies also provide coverage when a vehicle is stolen). Typically, this type of coverage is limited to a certain amount per day (e.g., \$30), up to a maximum amount (e.g., \$900). For an additional premium, the daily limit can usually be increased.

Whether you need rental reimbursement coverage for your car will depend on your transportation needs. If you own two vehicles or have access to an alternative means of transportation, you may be able to get by without it. However, if your car is your main source of transportation, it may be a worthwhile purchase.