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# Sentinel

## Personal Financial Management Ideas

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### Off The Grid: Preparing For Power Loss

By Shomari D. Hearn, CFP®, EA

Once a major storm has passed through, people who emerged from it without injuries or major property damage are apt to feel relief. But that relief can quickly turn to frustration the longer the power remains off.

Just ask the residents of Puerto Rico. Hurricane Maria hit the island in September 2017, and after eight months and \$3.8 billion in federal aid, the island's electrical grid remains deeply vulnerable. As of this writing, nearly 12,000 homes and businesses remain without power, and that number is bound to climb when the next major storm arrives on Puerto Rico's shores. With the 2018 hurricane season underway, that storm could arrive in a matter of months.

While my own experiences have been less extreme, as a longtime resident of South Florida, I can attest that extended periods without power are tough to navigate. In 2005, my family had scheduled a vacation to Orlando just ahead of Hurricane Wilma's arrival in Florida. Before leaving, we took our usual precautions, including putting up metal shutters and checking our supplies (which we had refreshed not long before, as Hurricane Katrina passed by on its path toward devastating New Orleans and the northern Gulf Coast). We left a day earlier than scheduled and enjoyed our time at Walt Disney World.

We also extended our trip by a few days, since neighbors had alerted us that our neighborhood remained without power. But eventually, I had to go back to work. We bought a portable generator and a few other supplies and headed back to Fort Lauderdale. That generator came in handy for powering appliances like our refrigerator, but it wasn't powerful enough to restore all the comforts of home – or even some necessities, like air conditioning. If you don't think air conditioning is a necessity, you have probably never tried living in South Florida in late Sep-

tember without it. Especially for older or sicker residents, cooling can be a matter of life and death.

Still, we were lucky. My home's power was restored 12 days after the storm; for some of the more than 3.2 million Floridians who lost power due to Wilma, the outage lasted as long as three weeks.

Last year, when Hurricane Irma hit, I did better. I am fortunate to live in a development that was built within the past 10 years, with the now-standard feature of underground power and cable lines. As a result, I never lost power during the storm, so my family and I were able to ride it out in comfort. I could also work from home in the aftermath of the hurricane, which left our office building in downtown Fort Lauderdale closed for a week due to lack of power and internet service. But while I did better personally, nearly 90 percent of Florida Power & Light's customers lost power in Irma's wake.

If you, like me, live someplace where frequent storms or other natural disasters threaten to interrupt your access to power, the best time to plan is long before a storm arrives. Underground power lines and traditional generators aren't your only options. Homeowners and businesses are increasingly turning to renewable energy sources to keep the lights on after big storms. And in the Sunshine State, that

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# Harmonious Prenuptial Agreements

By Larry M. Elkin, CPA, CFP®

June is still the month traditionally associated with weddings, even if October has surpassed it to become the most popular month to tie the knot. As they prepare for their big day, the last thing most couples want to dwell on is the possibility that their marriage may not last.

This is one reason I talked to my daughters about prenuptial agreements when they were teenagers, years before any potential grooms entered the picture. Another reason for raising the topic so early was that I did not want imply, by bringing it up later, that I was unhappy with any particular future child-in-law. As a matter of fact, now that one daughter is already married and the other is engaged, I am very happy with their choices. Proposing a prenup should not demonstrate lack of faith in a union, any more than buying homeowners insurance reflects a belief that your new house will one day burn down.

If you are a parent of a soon-to-be bride or groom, bear in mind that the decision about how and whether to enter a prenuptial agreement is ultimately up to the people getting married. You can offer suggestions, advice and support, but you cannot force anything. However, you may want to adjust your own estate or financial plans depending on how the couple proceeds, so if your child is comfortable sharing the details with you, it is worth asking.

Naturally, being both a professional financial planner and the owner of a family-run business, I gave my daughters some notes about how I thought they and their future husbands should go about getting their own prenups. I put those thoughts in an email, and told them I would eventually share most of these points for publication. They included:

**Full disclosure.** Both partners need access to all relevant information at the stage when they are discussing the agreement's terms. Beyond being the fair way to proceed, failing to fully disclose may have legal consequences; if it comes out that a spouse hid assets or debts during the prenuptial negotiation, it could invalidate the contract.

**Separate representation.** In many situations in your married life, the same attorney can assist both partners. This is not one of them. Many attorneys would not be comfortable representing both members of a couple in a negotiation in

which they are on opposite sides. Even if you find a lawyer willing to do so, however, a court might not enforce such an agreement, especially in favor of the party who paid the lawyer. Each partner is entitled to legal advice from an experienced attorney who is loyal solely to that individual.

**Keep it clear and simple.** Some people think the prenuptial agreement is the place to decide how many children they want to have, in what faith those children will be raised, how custody will be structured in case of divorce or separation, what sort of college they will attend, and what sports or musical instruments they will or won't play. Some people also try to use prenups to decide where they will live, how they will celebrate holidays, and all sorts of other domestic matters.

I do not recommend that your agreement try to do any of this. In any marriage, there are some basic financial and legal issues to settle. I believe you should limit the agreement and the discussion to these issues. Not only will this be easier on you, but it makes it more likely that your agreement will be enforced as you intend.

**Be fair.** The goal is not to try to extract everything possible from your partner. The goal should be for the couple to enter into married life knowing that they expect everything to work out well, but that if it doesn't, both parties will exit the marriage with their finances and self-esteem as intact as possible. There should be no losers, and you should win as a couple by treating one another with the consideration you each deserve.

Beyond these foundational principles, every prenuptial agreement – like every marriage – will look a little bit different.

As you begin, take stock of all your individual assets, projected income, trust distributions, and any major gifts or inheritances you expect to receive. You should also discuss your student loans or any other significant debt you will bring to your union. This may require you to go to your parents or other family elders, and possibly their financial advisers, to get a full sense of the big picture (to the extent they are willing to share this information). You may also

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## INVESTMENT FOCUS

### College Savings Plans For New Parents

By Melinda Kibler, CFP®, EA and Jeremy Dym

It is sometimes hard for parents of newborns to imagine their babies as teenagers heading off to college. But to be best prepared, parents should plan for that day proactively, even before their baby arrives.

Rising costs mean many parents today place an ever-larger emphasis on saving for college. According to The College Board's "BigFuture" calculator, the current average amount for tuition and fees for a public four-year college is \$9,410 for in-state students and \$23,890 for out-of-state students. For private, four-year colleges, the average is \$32,410. "My College Guide" reports that students pay an average of \$8,887 per year for room and board at public colleges and \$10,089 at private schools. This implies a total cost for a four-year degree of between \$73,000 and \$170,000, depending on the type of school a student attends. Parents who want to give their children a wide choice of schools while also avoiding the pitfalls of student loan debt can benefit from the head start and tax benefits a 529 account offers.

Saving for college is a long process that requires an organized and disciplined approach. A 529 account provides the opportunity to begin saving for college as soon as you are ready to start contributing. The earlier you do so, the more you will benefit from tax-free compounding. You can start a 529 plan at any time in your own name, and as soon as your baby has a Social Security number, you can name him or her the account's beneficiary.

There are two different types of 529 accounts: a college savings plan and a prepaid tuition plan. The latter allows

you to prepay for college credits at current prices. To ensure the full amount of tuition will be covered, the beneficiary must attend an in-state public college. Alternatively, the plan may offer to pay out an amount equal to the average of your state's public colleges' tuition to a private university of your choice. Any costs above that amount would need to be paid out of pocket or through a 529 college savings plan.

Generally, at Palisades Hudson we recommend avoiding prepaid plans altogether. They force investors to rely on the state's future ability and willingness to meet its financial obligation, as opposed to giving the investor control. Prepaid plans also may build in time parameters, such as using the assets within 30 years of opening the account; 529 savings plans typically are not subject to such limits.

A 529 college savings plan is designed to encourage account holders to save for the beneficiary's future college costs. The beneficiary has no legal right to the funds in the account, which provides assurance that the funds will be used only for the purpose you intend. Account funds can be withdrawn tax-free as long as they are used for qualifying education expenses, including tuition, books, room and board. Funds in 529 savings plans can be used at any private or public institution. Nonqualified withdrawals are subject to federal and state income taxes and a 10 percent penalty.

Thanks to recent tax legislation, you may also be able to use your 529 account to pay public, private or religious K-12 tuition expenses, up to \$10,000 per year, per beneficiary. However, keep in mind that since 529 plans are administered by states, they have the final say on how their particular plans work. Some states have not yet updated their plans' language to align with federal tax law. Since this change would be detrimental to the tax revenue of

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some states, they may not rush to implement it.

One benefit of 529 savings plans is the ability to shop around. Investors are not required to participate in their home state's plan, and so can benefit from comparing their state's plan with others. When choosing a Section 529 plan, focus on fees and investment options. A plan that delivers a diversified portfolio while minimizing expenses will permit greater growth.

Typically, management fees for 529 accounts range from 0 to 0.99 percent. New York state, for example, offers a plan with a 0.15 percent asset-based fee. Connecticut's plan has a 0.12 percent fee, plus a 0.01 percent administrative fee. The plan's administration fees are not the only costs to consider. You should also evaluate the underlying investments' fees, which can climb as high as 1 percent. While many states do not charge an enrollment fee at all, most that do set it at \$50 or less. Some also charge annual maintenance fees; though these are typically minimal, at around \$10 to \$25 per year, we still recommend trying to avoid them. If the account is set up for automatic contributions, many plans reduce or eliminate this fee, especially for residents. Plan administrators deduct account expenses directly from an account's investments, so limiting fees is essential to promoting account growth.

The 529 plan that you choose should also provide diverse investment options through various asset classes. We typically recommend our clients open a 529 plan through my529, a Utah program, unless they will receive a tax benefit by opening a 529 plan in their home state. My529 offers quality investment options and flexibility with minimal fees. Many states do offer tax deductions for contributions to a 529 plan, however. If you live in New York and use the New York 529 plan, for example, you can deduct up to \$10,000 annually. This sometimes, but not always, gives your home state's plan an edge in financial comparisons.

Ensuring that your account is properly and diversely invested will provide your best strategy for long-term growth. Just as in all financial planning, there is no one-size-fits-all approach for selecting the mix of assets in a 529 account. The beneficiary's age will affect the account's investment strategy, since this effectively determines the investments' time horizon. The younger your child, the more benefit you will likely see from a relatively aggressive asset allocation.

We recommend starting your account with a 100 percent equity allocation and transitioning to more conservative investments as the time for college nears. The process of adjusting the account's asset allocation as you approach a goal – in this case, your child's college enrollment – is commonly known as an account's "glide path."

For many savers, we recommend maintaining a 100 percent equity allocation for younger beneficiaries, typically until they reach age 12. Around this time, you should start shifting 10 percent of the portfolio to fixed-income investments each year, to decrease the portfolio's level of risk. This glide path will result in a 100 percent conservative allocation by the child's last year of college in a four-year degree program, assuming he or she goes directly into a program after high school.

You may also choose a static portfolio, where the allocation is initially set to remain the same throughout the life of the account. The account owner can still make manual adjustments, if need be; like any portfolio, you should never simply set an asset allocation and then walk away entirely. The asset allocation of your 529 account should reflect your tolerance for risk.

If your 529 account balance exceeds the beneficiary's undergraduate education costs, you have other ways to use the excess funds without triggering tax consequences. You can use the remaining assets to cover further education costs, such as graduate school tuition. You can roll over

**Ensuring that your account is properly and diversely invested will provide your best strategy for long-term growth.**

the funds into the college savings account of the beneficiary's siblings, or your child could eventually name his or her own children as successor beneficiaries of the account. Even if the beneficiary decides

not to go to college at all, you can change the beneficiary outright, as long as the new beneficiary is related to the previous beneficiary. This could even include transferring the account to the original beneficiary's aunts, uncles, nieces, nephews or first cousins.

## ...Prenuptial

want to agree to pull a credit report on one another in this planning stage.

For many people planning a wedding, especially a first wedding, their major assets are likely to be their personal earning power. You should both consider the question of alimony as dispassionately as possible. Note that some states do not allow spouses to waive the right to alimony, so if you plan to include that provision in your contract, make sure you know whether your state permits this.

If you have an advanced degree or a professional license, you may also want to specify that the other partner has no claim against a share of its value. Absent such an agreement, in some states a professional license such as a medical or CPA license is considered an asset that is subject to division in the case of a divorce. This is appropriate where one party helped pay for the training of the other, but if that is not the case, you might agree to treat each partner's professional credentials as separate property that is not subject to division.

Most couples should not waste time and legal fees hashing out the details of potential future child support in the prenuptial agreement process. Instead, it is generally better to specify that child support will be determined by mutual agreement or by the court in the event it becomes an issue. The major exception is for households that include children from prior relationships.

During this process, you should discuss whether and to what extent you plan to keep separate bank accounts. You should also check, if you don't already know, whether you live in a community property state, as this may further complicate your personal plans. With my daughters, I suggested that they specify that spouses were entitled, but not required, to maintain separate accounts not subject to division in case of divorce; any assets placed in a joint account would be considered joint property. The exact mix of joint and separate assets will look different for different couples, but every couple should discuss their expectations and agree on a system that works for both people, especially as it applies to assets brought to the marriage.

Your agreement should also address claims against the other spouse's retirement accounts, separate property brought into the marriage, or gifts given to one spouse by parents or another third party. The idea, overall, is that both spouses

should agree in advance what constitutes individual property and joint property, in order to prevent messy disputes over the matter in the event of a future separation. The same goes for liabilities incurred prior to the marriage.

You should ask your attorneys about any specific state laws governing prenuptial agreements that could apply to you. For instance, some states automatically invalidate premar-

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**The goal should be for the couple to enter into married life knowing that they expect everything to work out well, but that if it doesn't, both parties will exit the marriage with their finances and self-esteem as intact as possible.**

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ital agreements after a couple has been married for a certain number of years or when the couple has children. If such sunset provisions exist in your state, you may want to discuss other financial planning avenues, such as trusts,

to make sure both partners are protected.

The entire prenuptial process should be completed, and the agreement signed, well in advance of the wedding. I recommend no less than 30 days, largely because certain courts have refused to enforce last-minute agreements on grounds that at least one of the parties was put under undue pressure. On a practical note, too, you want to make sure you both have time to approach these decisions thoughtfully and without the additional stress of wedding-day plans bearing down on you.

Few people look forward to the prenuptial agreement process, but it can trigger some very productive and necessary conversations about your shared finances and values. When done right, a premarital agreement is a pretty simple and straightforward piece of paperwork, not much more complex – and no less necessary – than getting the marriage license itself. Once the contract is signed, the two of you can get back to other critically important decisions ... like the choice of song for your first dance as a married couple.

## ...Grid

largely means solar power. During Hurricane Irma, many Floridians were able to power home appliances without access to the grid using solar panels and an inverter.

Most rooftop solar arrays connect to a local power grid, which allows homeowners to sell excess power back to the utility, offsetting some portion of their electric bill. This means that if the grid fails, the solar array alone is not especially useful. An inverter is a device that changes the direct current output from a solar array into an alternating current (the type of current most appliances use). However, in some places, including Florida, utilities automatically shut down solar panels if the grid goes offline unless homeowners have installed other equipment to store energy locally – usually batteries.

Some solar arrays, such as the Tesla Powerwall, come equipped with a battery storage system that allows them to function as a true backup in case of a power outage. Configured correctly, these battery systems charge under normal conditions and kick in once the power goes out. Solar options including batteries are significantly more expensive than a setup exclusively tied to the grid; as of this writing, a Tesla Powerwall costs \$5,900, and with supporting hardware and installation, the total price can range from \$8,600 to \$14,600. But for storm preparedness, a battery system becomes crucial.

Some municipalities are beginning to see the value in solar backups, too. Coral Springs, Florida used traffic lights that ran on solar-powered batteries after Irma knocked out its power grid. This allowed parts of Broward County to avoid the headache-inducing gridlock that followed earlier storms like Wilma. Eventually, lawmakers will likely incorporate more resilient backups into the power grid's infrastructure.

Until then, homeowners may want to consider how to keep power flowing after a storm.

### Types Of Power Backup Systems

When considering how to prepare for a potential power interruption, it is worth considering a variety of factors, including cost, maintenance and ease of installation.

Solar systems make a great deal of sense in abundantly sunny places like Florida. They are not cheap, however.

Part of the cost can be offset by “net metering,” a process that allows residential customers who generate solar energy to sell that energy back to the traditional grid. In states with net metering laws, your solar array may help to reduce your electricity bill.

In some areas, you also may be able to reduce costs by joining a solar cooperative. Like other types of co-ops, solar cooperatives generally allow individuals to pool knowledge and resources. Co-op members may sometimes also get access to lower pricing by organizing bulk purchases; if a neighborhood decides collectively to install solar panels, homeowners may be able to benefit from certain economies of scale by coordinating.

Those who can't afford a personal solar array may want to look into whether any solar microgrids exist nearby. A microgrid is, essentially, a local grid with control capability, meaning it can operate autonomously from the traditional grid if necessary. While many existing solar microgrids principally sell power back to the local utility, it is possible that local organizers may one day provide backup power to their neighborhoods in emergencies. And microgrids aren't only for solar power. After Hurricane Sandy, a gas and solar-powered microgrid kept power on at Princeton University. Not every microgrid is set up to serve as a viable backup power source in cases of large outages, but some are.

Of course, not everyone lives in Florida. There are places where wind may be the more abundant renewable resource. Because wind turbines are generally more cumbersome than solar panels, they are not as popular for homeowners, but for properties of at least an acre where local zoning ordinances permit them, small-scale wind turbines can offer many of the same benefits as solar arrays. According to the Wind Energy Foundation, a system large enough to power an entire home costs an average of \$30,000, though that figure can vary widely depending on the system's height, size and installation costs. Smaller, off-grid turbines may cost between \$4,000 and \$9,000, and would function more like a traditional generator in an emergency, powering a few necessary appliances.

If you choose either solar or wind, you may be eligible for some federal income tax credits. As of this writing, home-

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owners can claim a credit against the installation costs of residential wind turbines (defined as those that generate no more than 100 kilowatts of electricity for residential use) and solar panels that meet applicable fire and electrical code requirements.

Homeowners who aren't looking to permanently incorporate renewable energy sources into their lives may find a traditional generator to be a more sensible solution. While they require nonrenewable fuel sources, in most areas they remain less costly than either solar or wind.

### Choosing And Using Backup Power Systems

Determining the required wattage will be among the first steps in selecting a backup power solution. Bear in mind that none of the options I have discussed will likely cover 100 percent of your power needs alone. A solar array with battery storage, like a traditional generator, generally provides enough power to run major appliances such as like refrigerators, internet modems and routers, and possibly air conditioning. When selecting a system, be realistic about separating needs from wants where your power usage is concerned.

Most generators can power between 2,500 and 5,000 watts. And while you can run more than one generator, assuming you have safe spaces to run them, bear in mind that you

will double not only your consumption of fuel, which can be difficult to obtain during a major outage, but the noise involved.

If you rely on generators, remember that you will need to take basic safety precautions. Always use heavy-duty extension cords and make sure your appliance plugs match the generators' sockets (or that you have the proper adapter). Never overload a generator or plug it into one of your home's wall outlets. Do not refuel a generator while it is running or still hot; otherwise, you could start a fire. And it is essential that you keep working, battery-operated carbon monoxide alarms in your home if you plan to use a generator. According to the Consumer Product Safety Commission, 751 people died from carbon monoxide poisoning stemming from generator use between 2004 and 2014.

Permanently installed stationary generators are generally safer than portable generators, even when the portable generators are used properly. Portable models are easy to overload, and should never be used indoors. Permanent backup generators may also be able to power a significant portion of your home in the event of power loss. Depending on your home's size, a permanent backup generator may cost thousands of dollars, but in a place like Florida where power outages can last days or weeks, the investment may be worthwhile.

Wishing you a safe – and well-lit – storm season.

## ...College

Once you select a 529 plan and begin to make contributions, beware of gift tax consequences. Contributions to 529 accounts qualify for the annual federal gift tax exclusion, which means you can give up to that amount (\$15,000 in 2018) per beneficiary without any tax consequences. You can also make a lump sum gift – up to \$75,000, or \$150,000 for married couples, in 2018 – and elect to split it evenly across five years on a pro-rated basis in order to avoid owing tax on the gift.

If you do not plan to start with a large initial contribution, rest easy; initial minimum contributions to 529 accounts are generally low. While specifics vary by state, in many cases the minimum can be as low as \$25. For most states, you can continue to contribute to the account until the bal-

ance for a particular beneficiary reaches a preset amount, ranging from \$235,000 to \$520,000 depending on the state and plan type. Bear in mind, too, that anyone can contribute to the account on a beneficiary's behalf. Consider asking for contributions as a baby shower gift or in lieu of birthday presents for young children to help kick off your savings early.

Parents of newborns face dozens of decisions every day. What type of crib to use? What is the best way to swaddle? While answering these questions will help your baby sleep well, answering the question of how you will save for your child's college education will help you sleep well too.

## *Duly Noted*

**IRS Speaks On State Tax Workarounds...** Taxpayers should be wary of supposed workarounds to the new \$10,000 annual limit on deductions for personal state and local taxes, the IRS cautioned. New regulations may invoke long-standing substance-over-form doctrine to disallow schemes that would have taxpayers make purported charitable contributions, which are not subject to the dollar cap, in exchange for a substantially equal reduction in state income tax liability. Several states hurried to enact such schemes early this year after the new limit was included as part of the 2017 federal tax overhaul. *Notice 2018-54*.

**...And Connecticut Answers.** Lawmakers in Hartford responded to the new federal deduction limits by shifting a significant share of the tax burden from individuals to businesses operating as pass-through entities that file their own federal tax returns. Typically, pass-throughs such as partnerships, S corporations and multi-owner limited liability companies (LLCs) do not pay income-based taxes; their income is reported to owners who pay the taxes directly on their personal returns. But under legislation Connecticut enacted in May, such entities will pay taxes directly to the state, which will grant individual owners an offsetting credit for taxes on their share of that income. Proponents argue that because the tax is imposed upon and paid directly by the business, the new deduction limits will not apply. Not everyone may benefit; out-of-state owners may still owe individual taxes to their own states, and may not be able to claim offsetting credits for the business-level taxes paid to Connecticut. And single-owner LLCs are not covered because they are disregarded for federal tax

purposes and do not file their own business tax returns. Affected businesses must pay quarterly estimated taxes retroactive to April 15 of this year, with special transition rules and penalty waivers. *SN 2018(4)*; 2018 STT 111-18.

**...And New Jersey Answers, Too.** Gov. Phil Murphy signed legislation retroactively allowing Garden State homeowners to prepay their 2018 property taxes in 2017. Many individuals hurried to do exactly that in the year's final days, in an effort to avoid the \$10,000 annual limit that was due to take effect this year. But such payments might not be deductible for federal purposes, particularly if the state had no authorized mechanism to accept such early remittances. The new law could remove at least that vulnerability if the IRS decides to challenge taxpayers who deducted such payments on their 2017 returns. *2018 STT 79-1*.

## *Sentinel*

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