C. Henning  Thank you, Jane. It’s my pleasure today to introduce you to Cliff Fowler. Cliff is a CPA and a PFS, and he can explain what a PFS is to you. He is the Founder and Managing Partner of Fowler, Durham, and Company, Certified Public Accountants, with two offices located in south central Kentucky. The firm serves the needs of individuals and small businesses in the areas of tax, accounting, business consulting, and financial planning. Cliff currently serves as the Financial Planning Section Chair of the Kentucky Society of Certified Public Accounts, and he also is a member of the AICPA and the PFS Designation Committee and is a member of the Campbellsville University Advisory Board.

It’s my pleasure to welcome Cliff. Please join me in doing so. Cliff?

C. Fowler  Thank you, Cindy. My job is to relate a few lifetime stories that I have referring to divorce and crisis issues.

The first one I want to talk about is a divorce situation that a client is going through. They divorced about eight or ten years ago, and, at the time, the oldest child was about 12 years old. That child
now is in college, but the child support was only to run through age 18. The child was the dependent of the non-custodial parent, and when the child turned 18 and went on to college—and this is before we even knew we were going to have education credits and deductions and we couldn’t plan for this—all of a sudden now the child is in college and we have this credit available. It’s available to the parent who the child is a dependent of.

We’re left—because the attorneys did not spell it out in the divorce decree very specifically, other than to say that that child was a dependent of the non-custodial parent—with about a $1,500 tax credit that’s up in the air of who can claim it. The custodial parent claimed it. The non-custodial parent thinks it’s their right to claim it, and we’re in court. To be honest, the judge doesn’t even know what to do with this because he’s not been faced with this.

The point is that when you go through a divorce, when you start talking about child support, who gets to claim the dependent, we have this mindset of “Age 18 it’s all over.” Any of us that have children over 18 realize that life doesn’t stop with your children at age 18, and neither does support, especially if they’re going on to school. Those kinds of things need to be discussed very up front and documented in the divorce decree of what happens to this child
after age 18. If the custodial parent is still supporting them, should the non-custodial parent still be paying child support after age 18? Who gets the dependency credit and deductions and those types of things?

There’s also a thing called an 8832 Form [Correction: IRS Form 8332: Release of Claim to Exemption for Child of Divorced or Separated Parents]. It is allowing the non-custodial parent to claim the child as a dependent. That has to be signed. Depending on which side I’m working with, this can be signed either annually or it can be signed as a lifetime waiver. If I’m working with the custodial parent, it’s an annual election. If the non-custodial parent fails to make child support payments, I at least have something over their head. If I’m working with the non-custodial parent, obviously, I want to get a lifetime dependency exemption thrown my way. But those are things that you need to think about. Most attorneys are not financial people. They may deal with these things sometimes, but from a tax aspect they’re probably not dealing with it, so it’s important probably to get a tax advisor, CPA, accountant involved with the divorce situation to at least review the documents to say there’s a potential problem down the road, to look at worst-case scenarios.
Another situation is one with widow ladies. I think this situation is changing. It could be widowers also, but going back several years ago and thinking about ladies born in the early 1900s and living in a rural area like I do, I still see deeds that only the husband is on. That was just commonplace. It wasn’t even thought about (the spouse being on the deed). It wasn’t anything to hide from them, to take from them. It’s just the way things were done. You also saw a lot of times where…and this could be either the man or the woman, but with this particular lady, she had nothing to do with the finances of the family. What happened to her was that her husband would give her an allowance for the grocery store. This was about 20 years ago or 25 years ago. Her allowance was about $25 a week for groceries. She would go to the grocery store, spend that money, be thrifty with it and everything, and that would be it. That’s all she knew about their finances. He passed away first, just as one of the speakers said that 70% of the men go first and leave the woman behind. Here she is 70 or 75 years-old. She does not drive. She does not know how to write a check. She has never written a check in her life. She has no idea what they’re worth. She has no job or experience in the workforce, and at that age would not need to or want to go back to work or go to work, but she has no earthly idea about anything. It comes to find out that the lady is a millionaire and thought she was a pauper.
It just goes back to what’s been said. Husbands and wives need to work together on the financial end of their families. Both spouses need to know what’s going on. Not that it can’t be that one spouse pays the bills and the other one doesn’t, but at least they need to know what the expenses are, reviewing our financial situation on a regular, ongoing basis.

It also led to this lady being very susceptible to being duped by people on the outside because she had not spent any money, had not been a part of the finances. She had no earthly idea what things cost. When things broke down at the house, she was at the whim of the person coming in to do things. So it’s just wise for both spouses to be actively involved in the financial situation of the family.

On the divorce end, one of the things on the settlements that we see is, if you take retirement money, be careful how you do it. Make sure that the attorney knows what a QDRO is. It’s a qualified domestic [relations] order, where the money passes inside the retirement plan and not [in the form of] a distribution that would be taxable. [See “Dividing Your Retirement Benefit for Family Support” in *What You Should Know About Your Retirement Plan*, a
The publication of the Employee Benefits Security Administration of the U.S. Department of Labor, at www.dol.gov/ebsa/publications/wyskapr.html] The same thing with acquiring property. Your cost in that property passes to you. If you get something, and then you turn around and sell it, it may not have a gain and it may have a huge gain on it, but it should be a determining factor, not just on the face value of it, but what are my tax consequences long term.

The other thing would be, “Should I get a financial planner involved when I go through a crisis like this?” I think I can speak for the other two speakers that absolutely in most every case you should get a financial planner involved of some sort. Where do I go for a financial planner? What do I look at?

One of the things that you would look at is their qualifications and their credentialing. What have they done? What is their expertise? Are they an insurance salesman? Are they a stock broker? Are they a tax preparer, or do they encompass all of these types of things in the different areas that I need to be involved in? Credentialing can give you a clue to what kind of person you’re dealing with. Are they a CFP [Certified Financial Planner], a PFS [Personal Financial Specialist], or do they not have any
credentials? What do those credentials mean? What kind of testing did they have to go through? What kind of experience does it take? What kind of continuing education does it take to maintain a credential, such as the PFS? [The Certified Financial Planner Board of Standards provides information on financial services credentials and the organizations that oversee them at www.cfp-board.org/learn/knowledgebase.asp?id=15.]

There are 330,000 CPAs in the American Institute of Certified Public Accountants. Of those, only about one percent of us are PFS, Personal Financial Specialists. The difference between my credential as a CPA and my credential as a CPA and a PFS means that I have done additional work, testing, experience, and continuing education in financial planning in all areas.

One of the other things that you would look at in picking a financial planner would be experience. A 22-year-old probably is not going to be as good a financial planner as somebody that’s 30 or 40 or 50-years-old just because financial planning has a lot to do with life experiences. Not to say the 22-year-old might not be good, but they don’t have a lot of life experiences. They’ve not run across a lot of situations. Experience is important, and it’s not just age. It’s actually doing the work and being involved in it.
Another thing would be the compensation that somebody would get or how they’re compensated. That’s why I mentioned stock brokers or insurance people. They may be very well capable of helping you with financial planning, but what is their motivation is what I’ve come to conclude on this type of figuring out whether this is a good planner or not -- from the perspective of are they trying to sell me something at a very vulnerable time in my life or is this somebody that’s going to do it on a fee basis? If I take their advice or leave their advice on the table, they get paid the same. They can be objective and independent of their livelihood. That’s a frustrating thing to me. You want to think the best of everybody and [that] everybody has the highest degree of integrity, but this is the real world, and not everybody is [has integrity]. Buyer, beware of who you’re dealing with.

The last thing I want to relate is a story on crisis and disaster. We recently had a tornado rip through our town. We were one of the three or four places in Kentucky and southern Indiana that got hit. Fortunately for us nobody was killed, no major injuries, but it did leave a pathway through town. Also, the crisis part now is going to hit as people go to rebuild. We have about 25 homes that are completely destroyed that will have to be rebuilt. The sad stories
that are happening, the sad part is some of these people do not
know--but they will shortly when they go to rebuild--the amount of
insurance coverage that you [they] have, and being aware of that.
We have a lot of homes that were built in the ‘60s; nice homes, but
when they go to build back they’re going to be in for a shock. A
lot of these people think they have adequate insurance, and we’re
hearing the horror stories of $50,000 worth of insurance is all some
of these people have. They have nothing left but a concrete pad on
a lot. You are not going to rebuild any kind of a house, even in a
low-cost area like I’m in, for $50,000. They are telling people and
the disaster relief people, “I have adequate insurance.”

It’s going to be a sad day, so reviewing your insurance, and what
has happened with these people is there is no step up in their
insurance clause for inflation. They have 1960 insurance to build a
2005 house with, and it’s going to be a sad day for a lot of these
people because the resources aren’t there. A 75-year-old widow
on a fixed income is not going to be able to borrow the money it’s
going to take to put herself back to where she was before the storm
hit. Replacement insurance is so much more important than just a
fixed-cost insurance.
These kinds of stories and horrors happen around us every day. They can be avoided to a certain extent. We can’t plan for every crisis in life. We’d go crazy trying to, but we can do some due diligence on financial planning and making sure we know where we stand, and look forward in planning for emergencies and having some extra [money] set aside so that when something does happen, when a crisis does happen, at least we’re not caught totally unaware.

J. Walstedt  
Thank you very much, Cliff, particularly for those personal stories. I know I went to a symposium recently where one of the speakers told a personal story. She had been widowed. Her husband had been diagnosed with cancer when he was, I believe, 47-years-old. Although they did have insurance, I believe it was $125,000 worth, he lived for four years. During that time they were able to buy additional insurance, so your comments about insurance are well taken.

Now I’m going to ask the operator, Carolyn, to give us instructions on how to ask questions.