CALAMOS®
WEALTH
MANAGEMENT

FAMILY MATTERS

Insights on key topics—
through a multi-generational lens.

TOPIC:

BUILDING & MAINTAINING CREDIT

Wealth management considerations for:

» GETTING COLLEGE STUDENTS & YOUNG ADULTS ON THE RIGHT TRACK
» STARTING A NEW MARRIAGE
» BORROWING AGAINST HOME EQUITY IN LATER LIFE

Credit is a powerful tool.

Learning how to manage it and use it effectively is a gift that can be handed down from generation to generation. This edition of *Family Matters* gathers input from Calamos Wealth Management Advisors on how to help college students and young adults get started on the right path. It also addresses common considerations for adults and retirees.

We created the *Family Matters* insight series to spark ideas and spur conversation among family members on a wide range of important financial topics. They're purposely written as a primer for more in-depth discussions with your Calamos Wealth Management advisor on how the matters presented will apply to you and your family's unique situation. We hope you find that the multi-generational lens by which topics are presented promotes pass-along readership to multiple family members. Your Calamos Wealth Management advisor is available to all members of your family to provide guidance on matters you care about most.

GETTING COLLEGE STUDENTS & YOUNG ADULTS ON THE RIGHT TRACK

Between her parents, her grown son from a first marriage, and even the twins, Leah Drucker sometimes feels like a personal finance advisor. None of them understands what an equity analyst does, but because she works at a Manhattan bank, they all ask her advice about money.

Lately, all their questions seem to be about credit.

Cutting the credit apron strings

Leah's girls complain—relentlessly, and in tandem—that they're the only ninth-graders without Apple Pay on their phones. Then there's Liel. He just graduated from Brandeis with a master's in something called "Sustainable International Development" and a seemingly unsustainable load of student debt. Now he wants Leah to co-sign a lease he can't afford.

Affluent parents with children transitioning from school to full-fledged adulthood sometimes struggle with the question of how involved they should remain financially. Ideally, parents will have already laid a solid foundation by helping their kids begin to establish credit on their own—even as early as high school—and by teaching them budgeting while they are in school, says Stephen Perl, Senior Wealth Advisor at Calamos Wealth Management in New York. He adds that even if parents don't necessarily need their kids to take out student loans to finance their education, loans can represent a way to make sure kids have some skin in the game and, thus, treat college seriously: "You can say to them, 'If you do everything right, I'll write the check when you're done. But if you go off the rails, you're going to be on the hook for it.'"

Helping a young adult with a financial head start is fine for parents that have the means to do so. However, Perl recommends that parents of recent graduates transfer functional responsibility for making sure bills are paid to the young adult. That means rather than sending a child's landlord a check directly every month or paying off a credit card, instead send the child a set amount to cover only those expenses that the parent has agreed to cover.

And for parents of grown children, some experts suggest putting such commitments down in writing, including the period of time the parent is prepared to provide support. It may feel awkward, but drawing up paperwork can underscore to your offspring that they're not kids anymore.

Perl recalls one client, a widow whose husband left a significant but not inexhaustible sum. She personally lived within her means, but was also covering her grown son's substantial monthly credit card bill, no questions asked. "We told her it was not sustainable—that she was going to run out of money," Perl said. "But she wouldn't hear it. The ironic part is that he wasn't just burning through his mother's nest egg, but also his own inheritance."

Perl says, "It's okay to help when you have the means. However, you need to be thinking about how your actions are setting the young adult up—and yourself—for success or failure later in life."

STARTING A NEW MARRIAGE

The only thing messier than Leah's first marriage—to a business school classmate who never finished his degree and treated the money Leah's grandmother left her as a personal trust fund—was its dissolution. Suffice it to say, bank accounts were frozen and secret credit card balances were discovered. After her divorce, Leah worked hard to rebuild her damaged credit. Once bitten, twice shy, she drew a bright line between her second husband's finances and her own...

Starting over

"There's a certain naiveté to first marriages when it comes to finances," says Scott Poulin, Senior Wealth Advisor at Calamos Wealth Management in Miami. "Newly married couples don't talk much about money and that can become established as a pattern." In many first marriages, one spouse, usually the primary income earner, is often deeply immersed in the family's financial arrangements, which can lead to problems down the line in the event of death or divorce.

In the realm of credit, the "non-financial" spouse can find themselves out in the cold if they don't take steps during the marriage to establish their own track record. Poulin recommends that couples set up one or more joint credit card accounts—he especially recommends providers that create a separate account number for each cardholder. It's a good idea, he says, to actively use the card belonging to the "non-financial" spouse and pay it down to zero every few months (at minimum) rather than carrying a balance month-over-month. "When couples manage their credit carefully, you will sometimes find that the spouse who doesn't work outside the house has a higher FICO score than the one who does," he says.

And if the blush of first marriage turns into a thorny divorce, Poulin says credit can turn into a source of acrimony and even subterfuge. "I've seen credit become weaponized," he says. "It's not unusual, during a proceeding, for one spouse to take out a new credit card in the other one's name and suddenly there's a new $10,000 balance." Poulin recommends both parties make an affidavit early in the process pledging not to take on additional credit card or other consumer installment debt during the divorce proceedings and that they move quickly to disentangle their day-to-day finances even as they work toward a longer-term settlement.

In second marriages, couples tend to do a better job communicating about finances—and compartmentalizing them. Poulin says that many who have been through the headache of untangling their affairs, often choose to set up a joint bank account with their second spouse (with associated debit cards, not credit cards). This account is used for shared household expenses. Everything else—including personal credit card, brokerage and retirement accounts— are kept separate.

Proper attention to credit, which has the potential to support individuals' and couples' financial goals, can at least contribute to couples achieving marital bliss. Sometimes that only follows hard lessons, which only underscores how important those life lessons are.

BORROWING AGAINST HOME EQUITY IN LATER LIFE

Every August for the last six years, Leah's parents have rented the same cottage on the North Fork of Long Island and brought the whole family together there. The owner just tipped Leah off that they plan to put it on the market, and her dad was intrigued. It's a special place and he's thinking about making an offer. He wonders if he should finance it by tapping the significant equity in his Brooklyn brownstone with a home equity loan?

Borrowing against a home

In the wake of the 2017 tax law overhaul, home equity loans aren't what they used to be, and Leah's parents would do well to consult with their advisors on all their financing options. Poulin notes that home equity lines of credit once represented a terrific option for consolidating high-interest debt into a loan that was usually tax deductible, just like a first mortgage—and they may still represent an attractive option relative to carrying large credit card balances, irrespective of the tax treatment of the interest. But after some initial confusion on the treatment of HELOCs under the new tax scheme, the IRS clarified in February that, under the new law, the interest on home equity loans is generally deductible only when the proceeds are used to finance or make substantial improvements on the residence the borrower is borrowing against. According to Terry LaBant, Sr. Wealth Strategist at Calamos Wealth Management, even if there is no primary mortgage but only a HELOC, interest will still only be deductible if used for home improvements or acquisition even if it is considered a first position loan.

While HELOCs aren't the tax-planning no-brainers they once were, they can still offer an effective source of credit, with interest rates that are lower than consumer installment debt such as credit cards because they are secured by property (See paper *New Tax Reform: Answers to Common Questions January 18, 2018*). In addition to consolidating high-interest debt, Perl notes that HELOCs can be effective for financing major purchases such as an automobile, or they can effectively smooth out cashflow for individuals whose income is "lumpy"—for example people who receive large annual bonuses. But Poulin advises caution when it comes to using home equity to cover day to day expenses—"sometimes people will draw it down for those things and then it's no longer there for the one-off purchase for which they originally took it out. And, as previously cited above, LaBant stresses that, when used for purposes other than substantial home improvements, the interest is NOT tax deductible.

Calamos Wealth Management and its representatives do not provide accounting, tax or legal advice. Each individual's tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation. For more information about federal and state taxes, please consult the Internal Revenue Service and the appropriate state-level departments of revenue, respectively.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Calamos Wealth Management LLC), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Calamos Wealth Management LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. Calamos Wealth Management LLC is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. If you are a Calamos Wealth Management LLC client, please remember to contact Calamos Wealth Management LLC, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. A copy of the Calamos

Wealth Management LLC's current written disclosure statement discussing our advisory services and fees is available upon request.

©2018 Calamos Investments LLC. All Rights Reserved. Calamos® and Calamos Investments® are registered trademarks of Calamos Investments LL.