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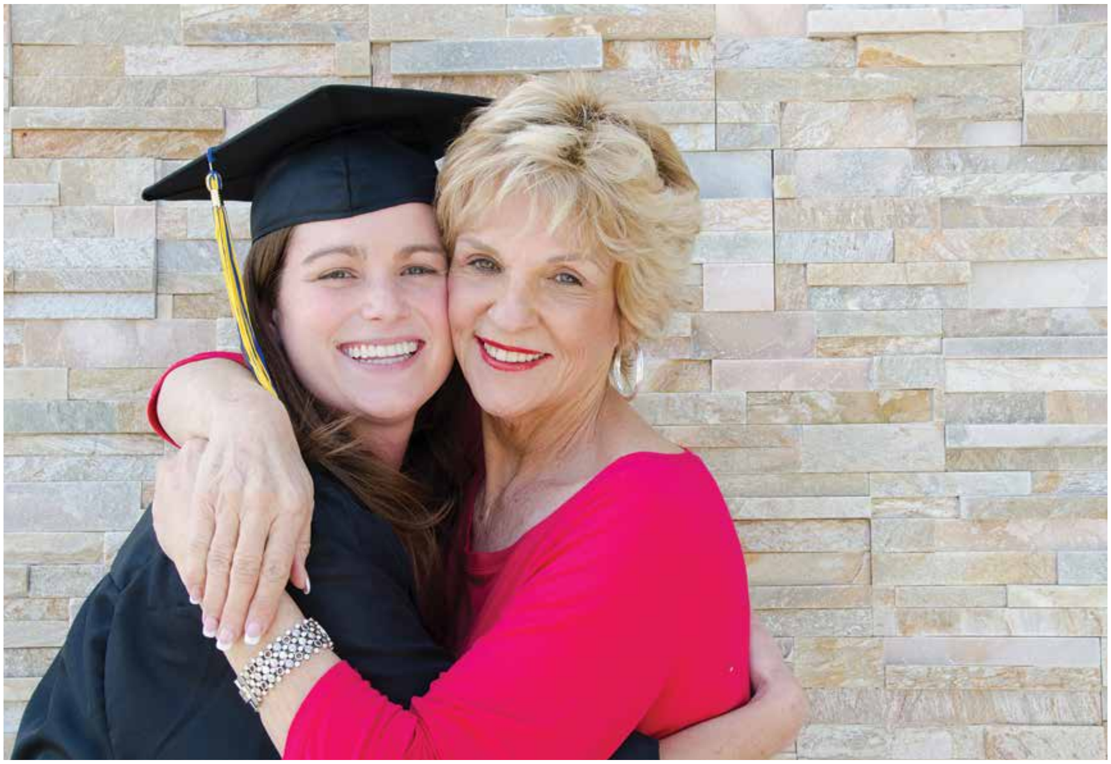


Money at work

Q's and A's on Section 529 Plans

Section 529 plans remain a popular way for parents to set aside funds for college education of their children. Here are the answers to several common questions on the subject.

Q. What exactly is a Section 529 plan?

A. A type of educational savings plan generally operated by the individual states. Section 529 plans are designed to encourage families to set aside funds for the future education of the younger generation. If certain requirements are met, no tax is due on the accumulation of earnings, and no tax is due when funds are paid out for qualified distributions.

Q. How does a prepaid tuition plan work?

A. Essentially, the plan keeps pace with the rising cost of college tuition. For instance, it currently costs $10,000 annually to send a child to a state university. You pay $10,000 now to buy shares in a plan. When the child enters college, your shares can pay for an entire year of tuition, no matter what it costs them. This type of plan is often attractive to parents because it offers a level of comfort. There is no risk of loss of principal, and the investment is usually guaranteed by the state.

Q. How does a college savings plan work?

A. As opposed to a prepaid tuition plan, there is no guaranteed lock on future tuition costs under a college savings plan. In fact, the savings may not be enough to cover all the costs. But you have a bigger potential upside as well, because it's possible to generate a better return with this type of plan.

(Of course, there are no guarantees, and all investing involves risk, including the possible loss of principal.)

Usually the plan will offer an asset allocation strategy geared to the current age of the child or the year he or she will enter school. For example, the plan may provide more aggressive investments in the early years and switch to more conservative investments as college approaches. Most college savings plans offer a variety of risk-based asset allocation portfolios managed by professionals.

Q. What are the restrictions on contributions?

A. Anyone can contribute to a Section 529 plan on behalf of a named beneficiary. Then, each state sets the limits on the amount of contributions allowed to a college savings plan. Check the limits in your state.

Note: In the event a child decides not to attend college or attends school in another state, you may be able to transfer funds to another plan or "roll over" funds for the benefit of a successor beneficiary (e.g., a younger child).

This type of plan is suitable for many, but is not for everyone. Investigate the options carefully to see if a Section 529 plan meets your family's personal needs. ❖

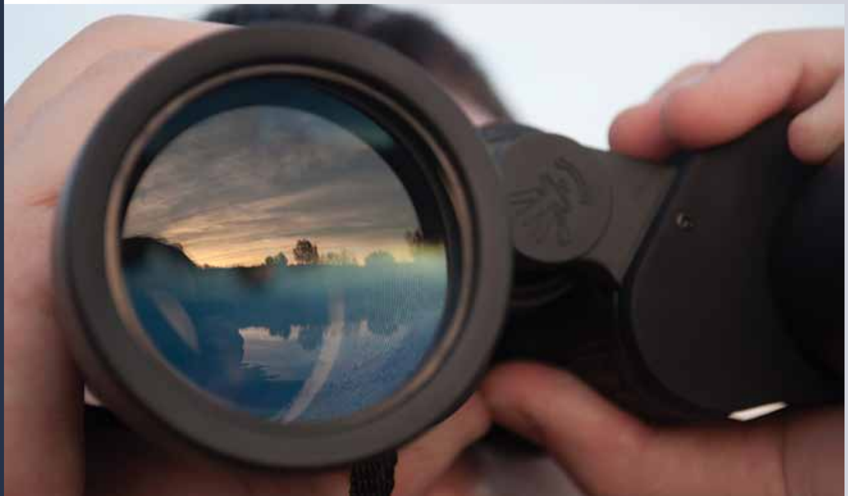
Before investing, the investor should consider whether the investor's or beneficiary's home state offers any state tax or other benefits available only from that state's 529 plan.

Six ways to plan for the long term

Pundits are divided over what a Trump presidency means to the equities markets. Unfortunately, no one has a crystal ball that can predict with 100% accuracy what will happen next. The best thing to do, regardless of your political leanings, is to develop a plan based on common sense investment objectives and your overall circumstances. Here are six ideas that can help provide a solid foundation for the future:

1. Contribute to retirement plans. Do not underestimate the value of tax-deferred compounding. For instance, if your company has a 401(k) plan, you can set aside up to $18,000 ($24,000 if age 50 or older) in 2017 without paying any current tax on that amount. The money grows tax free until you withdraw it—usually, when you are in a lower tax bracket. Supplement this with IRA contributions.

2. Save regularly. Frequently, people think of savings as a luxury item. But that kind of thinking can catch up with you down the road. A monthly contribution to your savings account may be just as important to your financial plan as paying your bills. If you make a habit of saving on a regular basis, you will find that even the smallest amount can add up to a substantial sum in a short time. Obviously, smart investments can help your savings grow even more.



3. Be a recordkeeper. What does paperwork have to do with investing? Simply this: The records you keep regarding such things as charitable contributions, home improvements and the like can help reduce your tax liability. And money saved can be money invested—better in your pocket than in Uncle Sam's.

4. Reduce your debt load. That same philosophy holds true when it comes to your debts. Wherever possible, reduce or eliminate your credit card and auto loan debts. For one thing, the less you owe, the more you can save. Also, the interest paid on personal debts generally cannot be deducted on your tax return.

5. Maximize company "extras." These include such old standbys as group life insurance and health insurance plans. If your company offers the option, consider a flexible spending account (FSA). This account is funded with pretax dollars to pay for medical or child care expenses as they occur during the year. However, keep in mind that an FSA reduces your take-home pay accordingly. What's more, any money in the account that is not spent by the end of the year is forfeited. (A 2 ½ month grace period or carryover of up to $500 may be allowed.)

6. Stay abreast of new developments. If the situation dictates it, you may have to modify your plans. That means staying abreast of current events and maintaining contact with your investment adviser. For example, you can keep a close eye on the rates offered on bank accounts, money market funds, Treasury securities and the like. This information is readily available. Do not hesitate to make modifications when they are warranted. Set up a meeting to map out your long-range plan. Usually, it's best then to stick with it through thick and thin. ❖

IRA rollovers: a tax-smart maneuver

When you take a distribution from an employer's retirement plan, you generally owe tax on the payout. However, with a timely move, you can continue to postpone paying the tax until you are ready to make withdrawals.

Basic premise: There is no current income tax liability on a distribution from a qualified retirement plan if you "roll over" the funds within 60 days. For example, if you have a 401(k) account at your job and you are retiring, you can transfer all the funds to an IRA without paying any tax.

Frequently, you were required to roll over the entire amount in your account balance with a lump-sum distribution. Now you might decide to take advantage of a partial rollover. Any portion of a distribution not rolled over is taxed as ordinary income.

In addition, rollovers could be used only upon separation from serving or upon reaching age 59½. Depending on your employer's plan, in-service distributions are permitted.

Nevertheless, certain qualified plan distributions are not eligible for tax-free rollover treatment. The list includes these items:

- Annuity payouts (e.g., regular-type pension payouts geared to your life expectancy or a period of 10 years or more).
- Required minimum distributions (RMDs) required to be made upon reaching the age of 70½.
- Payments to someone other than the employee or his or her spouse.
- Payments of nondeductible contributions made to the plan.
- Payments to correct excess contributions or excess deferrals.
- Loan amounts treated as distributions by the IRS.
- Hardship distributions.

Furthermore, if you receive a qualified retirement plan payout, income tax is automatically withheld at a 20% rate, even if you intend to roll over the funds to an IRA within 60 days.

You cannot recoup this amount until you file your income tax return for the year of the distribution. To make matters worse, you may also be assessed a 10% penalty tax for withdrawals prior to age 59½. The penalty is equal to 10% of the taxable portion of the withdrawal.

Key exception: There is no withholding requirement for a trustee-to-trustee transfer. This is the preferred approach for the majority of plan participants.

Say you're age 55 and you are expecting to receive a $100,000 distribution from your qualified retirement plan. If you arrange to directly transfer the $100,000 to the trustee of the IRA, you avoid both the 20% withholding requirement and the 10% penalty tax.

Of course, there are other factors to consider when you receive retirement plan distributions. For example, you may want to time receipt of a distribution for a year when you expect to be in a lower tax bracket. Note that different tax rules apply to transfers to a Roth IRA.

Is the rollover move right for you? It depends on your situation. Discuss your options with a retirement planning professional. ❖

Putting an auto-enrollment plan in gear

It is well known that a 401(k) plan can be a “win-win” situation for employees and employers. Just look.

- **For employees:** You can defer up to $18,000 of salary to your account in 2017 ($24,000 if you are age 50 or older) in addition to “matching” employer contributions. Contributions may grow without any tax erosion until they are withdrawn.
- **For employers:** A 401(k) plan may not be as costly to fund as most traditional pension or profit-sharing plans. It can also be an effective way to attract and retain valuable employees.

But 401(k) plans are subject to strict nondiscrimination testing. If your company’s plan does not measure up, certain highly compensated employees (HCEs) might be penalized. This may occur if you do not have a sufficient number of non-HCEs participating in the plan.

Fortunately, a relatively simple solution is available. Your company can use an automatic-enrollment plan designed to encourage a higher level of participation among non-HCEs.

How it works: Usually, an employee must proactively elect to participate in a 401(k) plan. An automatic-enrollment plan takes a different approach. If employees do not make any election, they are considered to be participants. In other words, you have to choose to opt out of the plan—not the other way around.

With an automatic-enrollment plan, it is likely that a higher percentage of non-HCEs will participate than they would with a traditional plan. Under a safe harbor rule, your company can provide minimum contributions on behalf of these employees equal to 7% of compensation.

This change may be sufficient to satisfy the nondiscrimination tests on behalf of HCEs. Also, non-HCEs who are currently reluctant or passive about enrolling in a 401(k) plan may benefit in the future. These “forced savings” can help such employees build a retirement nest egg.

A plan provider, third-party administrator or consultant can help with the changes needed to install this feature. For example, participation may become automatic after one year of service. Typically, the plan will provide low-risk default investments divided among diversified mutual funds. Of course, employees are free to make other investment choices.

But the automatic-enrollment feature is not without potential drawbacks. For instance, the company may set a relatively low default rate to encourage contributions. If you do nothing, you might ride along with that rate for years while you could, and possibly should, be saving more for retirement. Similarly, if you simply accept the investment choices established as the default, you may not be optimizing your earnings.

Practical approach: With professional guidance, you can make informed decisions that take your personal circumstances into account, even if your 401(k) plan uses an automatic-enrollment feature. Do not hesitate to ask for assistance. ❖

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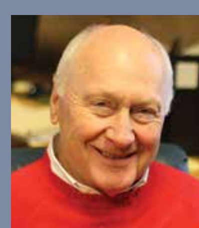

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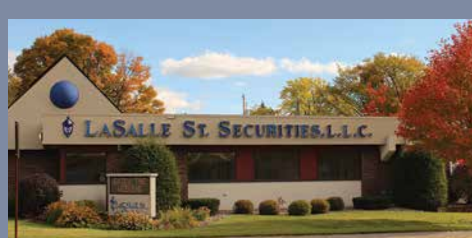

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WAY THAT WE CAN.