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FINANCIAL EDUCATION

FINANCIAL MISTAKES PEOPLE MAKE AT DIFFERENT AGES

There's a saying that with age comes wisdom, but this may not always be true in the financial world. As people move through different life stages, there are new opportunities--and potential pitfalls--around every corner.

In your 20s

Living beyond your means. It's tempting to want all the latest and greatest in gadgets, entertainment, and travel, but if you can't pay for most of your wants up front, then you need to rein in your lifestyle. If you take on too much debt--or don't work diligently to start paying off the debt you have--it can hold you back financially for a long, long time. Not saving for retirement. You've got plenty of time, so what's the rush? Well why not harness that time to work for you. Start saving a portion of your annual pay now and your 67-year-old self will thank you.

Not being financially literate. Many students graduate from high school or college without knowing the basics of money management. Learn as much as you can about saving, budgeting, and investing now so you can benefit from it for the rest of your life.

In your 30s

Being house poor. Whether you're buying your first home or trading up, don't buy a house that you can't afford, even if the bank says you can. Build in some wiggle room for a possible dip in household income that could result from switching jobs, going back to school, or leaving the workforce to raise a family. Not protecting yourself with life and disability insurance. Life is unpredictable. What would happen if one day you were unable to work and earn a paycheck? Let go of the "it-won't-happen-to-me" attitude. Though the cost and availability of life insurance depend on several factors including your health, the younger you are when you buy insurance, the lower your premiums will likely be. Not saving for retirement. Okay, maybe your

20s passed you by in a bit of a blur and retirement wasn't even on your radar screen. But now that you're in your 30s, it's critical to start saving for retirement. Wait much longer, and it can be hard to catch up. Start now, and you still have 30 years or more to save.

In your 40s

Trying to keep up with the Joneses. Appearances can be deceptive. The nice homes, cars, vacations, and "stuff" that others have might make you wonder whether you should be buying these things, too. But behind the scenes, your neighbors could be taking on a lot of debt. Take pride in your savings account instead. Funding college over retirement. In your 40s, saving for your children's college costs over your own retirement is a mistake. If you have limited funds, set aside a portion for college but earmark the majority for retirement. Then sit down with your teenager and have a frank discussion about academic options that won't break the bank--for either of you. Not having a will or an advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

In your 50s and 60s

Co-signing loans for adult children. Co-signing means you're on the hook--completely--if your child can't pay, a situation you don't want to find yourself in as you're getting ready to retire. Raiding your home equity or retirement funds. It goes without saying that doing so will prolong your debt and/or reduce your nest egg. Not quantifying your retirement income. As you approach retirement, you should know how much you can expect from Social Security (at age 62, at your full retirement age, and at age 70), pension income, and your personal retirement savings. Not understanding health-care costs in retirement. Before you turn age 65, review what Medicare does and doesn't cover, and how gap insurance policies fit into the picture.

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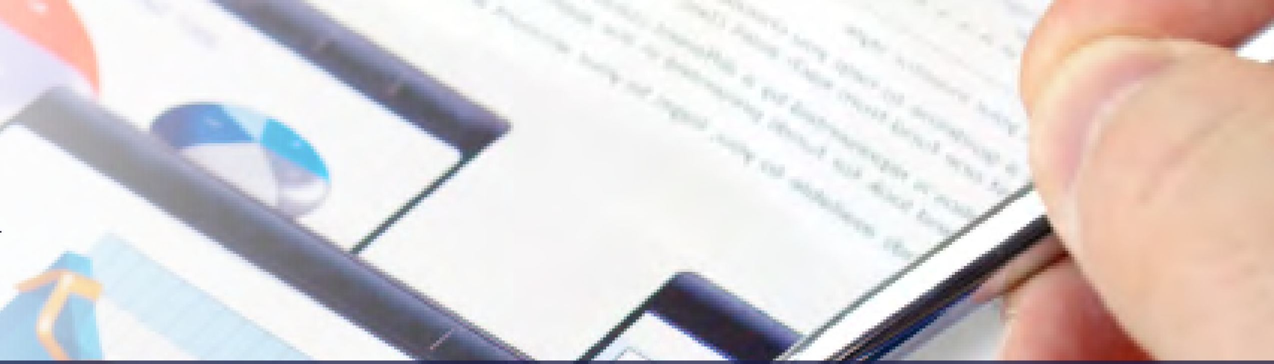

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THREE TAX PLANNING CONCEPTS

There are many ways to potentially reduce your tax burden. Here are three tax planning concepts that you should be familiar with.

TAX DEFERRAL

When you defer taxes to later years, any earnings compound without being reduced by income taxes. As a result, your investment may grow at a faster rate than if earnings were subject to income tax each year. In some cases, such as with a qualified plan or a traditional IRA, tax deferral may be combined with an initial tax deduction or exclusion from income for contributions. Tax deferral can be provided by tax-advantaged accounts that generally defer any taxation until distributions are made. Examples include qualified plans and IRAs, annuities, health savings accounts (HSAs), Coverdell education savings accounts (ESAs), and 529 plans. Taxation of capital gains is generally deferred until property is sold. Tax deferral may also be available through the use of strategies such as installment sales and like-kind exchanges. Tax deferral can be the most beneficial when you defer tax until a time when your tax rate will be lower, or at least when it will be no higher. If your tax rate will be higher later, there may still be an advantage to tax deferral, but you'll need to run the numbers to determine whether the benefits of tax deferral might overcome the higher tax rate.

Example: *You make a nondeductible contribution of $5,000 to a traditional IRA. Assume you will be subject to a 28% income tax rate, both now and in the future. If you earn a 5% annual rate of return for 20 years, the $5,000 will grow to $13,266, with an after-tax value of $10,952. (If you made a deductible contribution of $5,000 to a traditional IRA and placed any tax savings from the deduction in a side fund, the after-tax value of the IRA plus the side fund after 20 years would generally be even greater.) If instead you simply saved $5,000 in an account that is taxable each year, the $5,000 would grow at a 3.6% after-tax rate to $10,095 in 20 years. This is $857 less than with the tax-deferral advantage of making a nondeductible contribution to a traditional IRA.**

TAX-FREE INCOME

Interest income from municipal bonds can generally be received free of federal income tax. Qualified distributions from Roth IRAs, Roth 401(k)s, HSAs, ESAs, and 529 plans can also be received free of federal income tax. In some cases, such as with a Roth IRA, tax deferral may be combined with tax-free income.

Example: *You make a nondeductible contribution of $5,000 to a Roth IRA. If you earn a 5% annual rate of return for 20 years, the $5,000 will grow to $13,266, with no federal income tax on qualified distributions.**

SPECIAL TAX RATES

The tax rate on long-term capital gains and qualified dividends is generally 0% for taxpayers in the 10% and 15% tax brackets, 15% for taxpayers in the 25% to 35% tax brackets, and 20% for taxpayers in the 39.6% tax bracket. In some cases, such as with stock, special tax rates may be combined with tax deferral.

Example: *You purchase stock that pays no dividends for $5,000. Assume you will be subject to a 15% capital gain tax rate, both now and in the future. If the stock increases 5% in value each year and you hold on to the stock for 20 years, the $5,000 will grow to $13,266, with an after-tax value of $12,027.**

Example: *You purchase a dividend-paying investment for $5,000. Assume you will be subject to a 15% capital gain tax rate, both now and in the future. If you earn a 5% annual rate of return consisting of qualified dividends and long-term capital gains that are taxable each year, the $5,000 will grow at a 4.25% after-tax rate to $11,460 in 20 years.**

Note: *To the extent that distributions from tax-advantaged accounts such as qualified plans and IRAs, annuities, HSAs, ESAs, and 529 plans are subject to tax, ordinary income tax rates apply; they generally do not qualify for special capital gain tax rates.*

*These hypothetical examples are for illustrative purposes only, and the results are not representative of any specific investment or mix of investments. Actual results will vary. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment time horizon and income tax brackets, both current and anticipated, when making an investment decision, because they may further impact the results of the comparison. These illustrations assume a fixed annual rate of return; the rate of return on your actual investment portfolio will be different, and will vary over time, according to actual market performance, and could include losses. This is particularly true for long-term investments. It is important to note that investments offering the potential for higher rates of return also involve a higher degree of risk to principal.

An additional 3.8% net investment income tax may apply to some or all of your net investment income if your modified adjusted gross income exceeds certain thresholds. This tax does not apply to qualified plans and IRAs or to tax-free income.

Distributions from qualified plans and IRAs prior to age 59½ may be subject to a 10% penalty tax unless an exception applies. Non qualified distributions from HSAs, ESAs, and 529 plans may also be subject to a penalty tax.

You might also consider the effect of state income tax.

OPENING A 529 PLAN ACCOUNT (FAQ)

529 plans are savings vehicles tailor-made for college. Anyone can open an account, lifetime contribution limits are typically over $300,000, and 529 plans offer federal and sometimes state tax benefits if certain conditions are met. Here are some common questions on opening an account.

Can I open an account in any State's 529 plan or am I limited to my own state's plan?

Answer: It depends on the type of 529 plan. There are two types of 529 plans: college savings plans and prepaid tuition plans. With a college savings plan, you open an individual investment account and direct your contributions to one or more of the plan's investment portfolios. With a prepaid tuition plan, you purchase education credits at today's prices and redeem them in the future for college tuition. Forty-nine states (all but Wyoming) offer one or more college savings plans, but only a few states offer prepaid tuition plans. 529 college savings plans are typically available to residents of any state, and funds can be used at any accredited college in the United States or abroad. But 529 prepaid tuition plans are typically limited to state residents and apply to in-state public colleges. Why might you decide to open an account in another state's 529 college savings plan? The other plan might offer better investment options, lower management fees, a better investment track record, or better customer service. If you decide to go this route, keep in mind that some states may limit certain 529 plan tax benefits, such as a state income tax deduction for contributions, to residents who join the in-state plan.

Is there an age limit on who can be a beneficiary of a 529 account?

Answer: There is no beneficiary age limit specified in Section 529 of the Internal Revenue Code, but some states may impose one. You'll need to check the rules of each plan you're considering. Also, some states may require that the account be in place for a specified minimum length of time before funds can be withdrawn. This is important if you expect to make withdrawals quickly because the beneficiary is close to college age.

Can more than one 529 account be opened for the same child?

Answer: Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, as long as you do so under different 529 plans (college savings plan or prepaid tuition plan). For example, you could open a college savings plan account with State A and State B for the same beneficiary, or you could open a college savings plan account and a prepaid tuition plan account with State A for the same beneficiary. But you can't open two college savings plan accounts in State A for the same beneficiary. Also keep in mind that if you do open multiple 529 accounts for the same beneficiary, each plan has its own lifetime contribution limit, and contributions can't be made after the limit is reached. Some states consider the accounts in other states to determine whether the limit has been reached. For these states, the total balance of all plans (in all states) cannot exceed the maximum lifetime contribution limit.

Can I open a 529 account in anticipation of my future Grandchild?

Answer: Technically, no, because the beneficiary must have a Social Security number. But you can do so in a roundabout way. First, you'll need to open an account and name as the beneficiary a family member who will be related to your future grandchild. Then when your grandchild is born, you (the account owner) can change the beneficiary to your grandchild. Check the details carefully of any plan you're considering because some plans may impose age restrictions on the beneficiary, such as being under age 21. This may pose a problem if you plan to name your adult son or daughter as the initial beneficiary.

What happens if I open a 529 plan in one state and then move to another state?

Answer: Essentially, nothing happens if you have a college savings plan. But most prepaid tuition plans require that either the account owner or the beneficiary be a resident of the state operating the plan. So if you move to another state, you may have to cash in the prepaid tuition plan. If you have a college savings plan, you can simply leave the account open and keep contributing to it. Alternatively, you can switch 529 plans by rolling over the assets from that plan to a new 529 plan. You can keep the same beneficiary when you do the rollover (under IRS rules, you're allowed one 529 plan same-beneficiary rollover once every 12 months), but check the details of each plan for any potential restrictions. If you decide to stay with your original 529 plan, just remember that your new state might limit any potential 529 plan tax benefits to residents who participate in the in-state plan.

529 Plan Assets Surpass $230 Billion

Assets in 529 college savings plans reached $231.9 billion in the first quarter of 2015, a 10.1% increase over the first quarter of 2014. (Source: Strategic Insight, 2015)

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.

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WHAT DO I NEED TO DO TO CREATE A WILL?

A will is a legal document that is generally used to describe how you want your estate to be distributed after your death. It might also be used to name an executor for your estate or a guardian for your minor children. It is generally a good practice to name backup beneficiaries, executors, and guardians just in case they are needed. Even though it's not a legal requirement, a will should generally be drafted by an attorney. In order to make a will, you must be of legal age (18 in most states). You must also understand what property you own, who the family members or friends it would seem natural to leave property to are, and who gets what under your will. Generally, a will is a written document that must be executed with appropriate formalities. You should sign the document (or direct someone else to sign for you in your presence). The will should also be signed by at least two witnesses who are of legal age and understand what they are witnessing; some states require three witnesses. The witnesses should not benefit from any provisions in the will. Some states also require that a will be notarized. Some states allow a will that is entirely in your handwriting, known as a "holographic" will. Some states allow a "nuncupative" will, which is an oral will you dictate during your last illness, before witnesses, that is later converted to writing. Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death. Also, certain property (e.g., life insurance, qualified retirement plans, IRAs, Totten Trust accounts, Payable on Death accounts, Transferable on Death accounts) passes directly to the designated beneficiary at your death, bypassing the probate process. Your will does not take effect until you die. You can create a new will or revoke or amend an existing will up until your death.

I'M THINKING ABOUT STORING FINANCIAL DOCUMENTS IN THE CLOUD. WHAT SHOULD I KNOW?

Cloud storage - using Internet-based service providers to store digital assets such as books, music, videos, photos, and even important documents including financial statements and contracts - has become increasingly popular in recent years. But is it right for you? Opinions vary on whether to store your most sensitive information in the cloud. While some experts say you should physically store items you're not willing to lose or expose publicly, others contend that high-security cloud options are available. If you're thinking about cloud storage for your financial documents, consider the following:

- Evaluate the provider's reputation. Is the service well known, well tested, and well reviewed by information security experts?
- Consider the provider's own security and redundancy procedures. Look for such features as two-factor authentication and complex password requirements. Does it have copies of your data on servers at multiple geographic locations, so that a disaster in one area won't result in an irretrievable loss of data?
- Review the provider's service agreement and terms and conditions. Make sure you understand how your data will be protected and what recourse you have in the event of a breach or loss. Also understand what happens when you delete a file - will it be completely removed from all servers? In the event a government subpoena is issued, must the service provider hand over the data?
- Consider encryption processes, which prevent access to your data without your personal password (including access by people who work for the service provider). Will you be using a browser or App that provides for data encryption during transfer? And once your data is stored on the cloud servers, will it continue to be encrypted?
- Make sure you have a complex system for creating passwords and never share your passwords with anyone.

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