THE PERSONAL PLANNER

Personal Financial Planning Tips for Today and the Rest of Your Life

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Happy New Year!

The holidays are history, winter has apparently returned to the upper Midwest, and it's time to settle in for the next few months. It was a very mild December, meteorologically and in the markets too (although the weather proved more consistent than the markets). Still, it's nice to end an otherwise undistinguished year in the markets on an up note.

So January is upon us, a time of new beginnings, reflection and resolve. I wish you all the best in the new year and stand ready to assist you in your efforts to make the most of your financial resources.

Have a great 2015!

Bruce Heling, CFP CPA
December 30, 2014

January 2015

HELING ASSOCIATES
Bringing the Personal to Financial Planning

Healthy Resolutions Can Pay Off (Literally)

If you made a New Year's Resolution to get healthy, you may get more bang for your resolution buck than you bargained for. That's because healthy habits can benefit your wallet as well as your body.

The link between health and money

According to the Centers for Disease Control and Prevention (CDC), chronic conditions--including diabetes, heart disease, and cancer--account for more than 75% of all health-care costs nationwide. Nearly half of all Americans have a chronic disease, which can lead to other problems that are devastating not just to health but also to a family's finances. People with a chronic condition pay five times more for health care each year, on average, as those without a chronic disease.*

Many chronic diseases can be linked to four behaviors: tobacco use, excessive alcohol consumption, poor eating habits, and inactivity.* A closer look at each of these behaviors demonstrates the health-money connection.

Tobacco and alcohol

The American Cancer Society (ACS) reports that the average price of a pack of cigarettes in the United States is $6.36. That means the average annual cost for a pack-a-day smoker is more than $2,300. However, the average health-related cost to a smoker, says the ACS, is $35 per pack--or $12,775 per year for someone who smokes a pack a day.

The National Institute on Alcohol Abuse and Alcoholism defines moderate drinking as one drink per day for women and two for men. Drinking more than that can lead to health problems, including various forms of cancer as well as impairment of your brain, heart, liver, and pancreas. Such outcomes have economic costs. The CDC reports that in 2006, the national cost of excessive alcohol consumption was $223.5 billion, 42% of which was shouldered by excessive drinkers and their families.

Eating habits and activity level

Proper nutrition and regular exercise are vital to staying healthy, but they can also save you money. For example, reducing the amount of high-in-saturated-fat products, processed foods, and red meat in your diet can result in benefits to your heart and wallet. Replacing high-fat ingredients in some recipes with healthier, low-cost options--such as using beans instead of ground beef--can help trim your grocery bills. And replacing high-calorie meals eaten at restaurants with meals made at home using fresh, in-season ingredients can benefit both body and bank account.

Current guidelines from the U.S. Department of Health and Human Services recommend at least 2½ hours of moderate physical activity per week. Many opportunities exist in everyday life to both accumulate active minutes *and* save money. Instead of driving to your destination, walk or ride a bike. Do your own yard work or house cleaning instead of hiring help. Go for a hike or play ball with your kids rather than going to the movies or visiting an amusement park.

Long-term considerations

Chronic disease also has indirect long-term costs. Leaving the workforce for extended periods--or having to retire early--means fewer paychecks, less chance to benefit from workplace-provided retirement plans and health-care benefits, and lower earnings to apply toward Social Security benefits. In addition, chronic diseases often necessitate home renovations, the hiring of specialized care providers, or even permanent nursing care. When viewed over the long term, taking steps today to reduce your risks of getting sick down the road may make good health *and* financial sense.

*Sources: Centers for Disease Control and Prevention, the Department of Health and Human Services, and the Partnership to Fight Chronic Disease

Don't assume that Social Security is just for retirees; it's much more than a retirement program. According to the SSA, approximately 21% of individuals currently receiving benefits are younger than retirement age who are receiving disability or survivor benefits. Get in the habit of checking your Social Security Statement every year to find out what role Social Security might play in your financial future.*

**Source: Fast Facts & Figures About Social Security, 2014*

No Matter What Your Age, Your Social Security Statement Matters

Fifteen years ago, the Social Security Administration (SSA) launched the Social Security Statement, a tool to help Americans understand the features and benefits that Social Security offers. Since then, millions of Americans have reviewed their personalized statements to see a detailed record of their earnings, as well as estimates of retirement, survivor, and disability benefits based on those earnings. Here's how to get a copy of your statement, and why it deserves more than just a quick glance, even if you're years away from retirement.

How do you get your statement?

In September 2014, the SSA began mailing Social Security Statements to most workers every five years. Workers attaining ages 25, 30, 35, 40, 45, 50, 55, and 60 who are not receiving Social Security benefits and are not registered for an online account will receive a statement in the mail about three months before their next birthday. Workers older than age 60 will receive a statement every year.

But why wait? A more convenient way to view your Social Security Statement is online. First, visit socialsecurity.gov to sign up for a personal *my* Social Security account (you must be 18 or older to sign up online). Once you have an account, you can view your Social Security Statement anytime you want, as often as you want.

Check your estimated benefits

Your Social Security Statement gives you information about retirement, disability, and survivor benefits. It tells you whether you've earned enough credits to qualify for these benefits and, if you qualify, how much you can expect to receive. As each Social Security Statement notes, the amounts listed are only estimates based on your average earnings in the past and a projection of future earnings. Actual benefits you receive may be different if your earnings increase or decrease in the future. Amounts may also be affected by cost-of-living increases (estimates are in today's dollars) and other income you receive. Estimated benefits are also based on current law, which could change in the future.

Retirement benefits

Although Social Security was never intended to be the sole source of retirement income, retirement benefits are still very important to many retirees. Your statement shows estimates of how much you can expect to receive if you begin receiving benefits at three different ages: your full retirement age (66 to 67, depending on your birth year), age 62 (your benefit will be lower), or age 70 (your benefit will be higher). When to start claiming Social Security is a big decision that will affect your overall retirement income, so if you're approaching retirement, this information can be especially useful. But even if you're years away from retirement, it's important to know how much you might receive, so that you can take this information into account as you set retirement savings goals.

Disability benefits

Disability is unpredictable and can happen suddenly to anyone at any age. Disability benefits from Social Security can be an important source of financial support in the event that you're unable to work and earn a living. Check your Social Security Statement to find out what you might receive each month if you become disabled.

Survivor benefits

Survivor protection is a valuable Social Security benefit you may not even realize you have. Upon your death, your survivors such as your spouse, ex-spouse, and children may be eligible to receive benefits based on your earnings record. Review your Social Security Statement to find out whether your survivors can count on this valuable source of income.

Review your earnings record

In addition to benefit information, your Social Security Statement contains a year-by-year record of your earnings. This record is updated whenever your employer reports your earnings (or if you're self-employed, when you report your own earnings). Earnings are generally reported annually, so keep in mind that your earnings from last year may not yet be on your statement.

It's a good idea to make sure that your earnings have been reported correctly, because mistakes do happen. You can do this by comparing your earnings record against past tax returns or W-2s you've received. This is an important step to take because your Social Security benefits are based on your average lifetime earnings. If your earnings have been reported incorrectly, you may not receive the benefits to which you're entitled.

What if you find errors? The SSA advises you to call right away if any earnings are reported incorrectly. The SSA phone number is 1-800-772-1213 (TTY 1-800-325-0778).

Saving for College: 529 Plans vs. Roth IRAs

529 plans reach the $200 billion mark

As of June 2013, assets in 529 plans totaled $205.7 billion. Virginia has the largest 529 plan, with 19% of the total assets. (Source: The College Board, Trends in Student Aid 2013).

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, before investing, 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.

529 plans are vehicles tailor-made for college savings. But some parents like the flexibility of using Roth IRAs. So how does a favorite of the college savings world stack up against a favorite of the retirement savings world when it comes to putting money aside for college?

Contributions

529 plans: People at all income levels can contribute to a 529 plan. Lifetime contribution limits are high, typically $300,000 and up. And if certain requirements are met, 529 plans let you gift large lump sums gift-tax free--up to five years worth of the $14,000 annual gift tax exclusion, which would be up to $70,000 for single filers and $140,000 for married joint filers (in 2014).

Roth IRAs: Not everyone is eligible to contribute to a Roth IRA. Income must be below $129,000 for single filers or $191,000 for joint filers (in 2014). In addition, Roth IRAs have annual contribution limits--$5,500 per year, or $6,500 if you're age 50 or older (in 2014).

Bottom line: Only 529 plans offer unlimited eligibility and the ability to make large lump-sum gifts in a single year.

Federal tax benefits

529 plans: Earnings accumulate tax deferred and are tax free if account funds are used to pay the beneficiary's qualified education expenses (a broad term that includes tuition, fees, room, board, and books). States generally follow this tax treatment, and some offer an additional tax benefit: a deduction for 529 plan contributions.

But if 529 plan funds are used for any other purpose, the earnings portion of the withdrawal is subject to income tax *and* a 10% federal tax penalty. Essentially, Uncle Sam is telling you to use the money for college.

Roth IRAs: Earnings in a Roth IRA also accumulate tax deferred and are tax free if a distribution is qualified. A distribution is qualified if a five-year holding period is met *and* the distribution is made: (1) after age 59½, (2) due to a qualifying disability, (3) to pay certain first-time homebuyer expenses, or (4) by your beneficiary after your death.

If your distribution is not qualified, the earnings portion is subject to income tax and, if you're younger than 59½, a 10% early-withdrawal penalty (unless an exception to the penalty applies). Again, Uncle Sam is encouraging you to wait and use the money for retirement. One exception to the early-withdrawal penalty is when a withdrawal is used to pay college expenses.

So it comes down to your age. Once you've met both the age 59½ and five-year holding requirements, money you withdraw from your Roth IRA to pay your child's college expenses is tax free. But if you withdraw funds before age 59½ to pay college expenses--the likely scenario for most parents--you might owe income tax on the earnings but not an early-withdrawal penalty. (Nonqualified distributions draw out contributions first and earnings last, so you could withdraw up to the amount of your contributions and not owe income tax.)

Bottom line: 529 plans offer more potential tax benefits *if* the funds are used for college. But Roth IRAs offer greater flexibility for parents over age 59½ who are paying college bills.

Investment choices

529 plans: With a 529 plan, you're limited to the investment options offered by the plan. Most plans offer a range of static and age-based portfolios (where the underlying investments automatically become more conservative as the beneficiary gets closer to college) with different levels of risk, fees, and management goals. If you're unhappy with the market performance of the option(s) you've chosen, you can generally change the investment options for your future contributions at any time. But you can change the options for your *existing* contributions only once per year (per federal law).

Roth IRAs: With a Roth IRA, you can generally choose from a wide range of investments, and you can typically buy and sell investments whenever you like.

Bottom line: The 529 plan rule of "one investment change per year" on existing contributions may restrict your ability to respond to changing market conditions.

Financial aid

529 plans: Under federal aid rules, 529 accounts are counted as parental assets (assuming the parent is the account owner), and 5.6% of parental assets are deemed available for college expenses each year. Colleges also consider the value of 529 plans when distributing their own institutional aid.

Roth IRAs: Under federal aid rules, retirement assets are not counted at all, so Roth IRAs don't impact federal aid in any way. However, colleges may consider retirement plan balances when distributing their own aid.

Bottom line: Only 529 plans count in both federal and college financial aid calculations.

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When do I need to submit college financial aid forms?

It depends on the form you're filling out and whether your child is a new college student or a returning student.

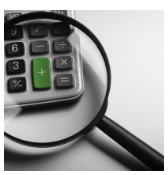
College deadlines for the federal government's financial aid form, the FAFSA, might be anywhere from February 1 to April 1 for both new and returning students. But it's in your best interest to submit the FAFSA as soon after January 1 as possible (it can't be submitted before January 1) because some government aid programs operate on a first-come, first-served basis.

The FAFSA relies on tax information from the previous year, so it's helpful to have your tax return already completed. However, if you don't, you can still file the FAFSA using estimated numbers and then go back later and update your FAFSA with final tax numbers once you've completed your tax return (the government offers an online tool--the IRS Data Retrieval Tool--that allows you to import your tax information directly into your FAFSA). The FAFSA captures two data points: the financial picture of both the parent(s) and the student for the previous year.

The main financial aid form that most colleges use to distribute their own aid, the CSS Profile, is due anywhere from February 1 to March 1 for new students applying to college regular decision (or November 1 to December 1 for new students applying early decision or early action) and by April 15 for returning students. The CSS Profile captures six data points: the financial picture of both the parent(s) and student for the previous year, and an estimated financial picture of parent(s) and student for the current year and for the following year.

Even if you don't think your child will qualify for need-based federal financial aid, you should consider submitting the FAFSA if: (1) you want your child to be eligible for an unsubsidized Stafford Loan (a non-need-based federal student loan available to any student); and/or (2) you want your child to be considered for college need-based aid--colleges generally require both the FAFSA and the CSS Profile before they will consider your child for college need-based aid.

Both the FAFSA and the CSS Profile can be submitted online, and you must file them for each year that you want your child to be considered for aid.



Do you understand the definition of financial aid?

The term "financial aid" goes hand in hand with paying for college. But it can mean different things to different people, and often the term is used in various ways, even by colleges.

"Financial aid" is money that can help students pay for college. Many people think of student loans when they hear the term financial aid, but loans are just one part. In addition to loans, financial aid includes scholarships, grants, and work-study jobs. Scholarships and grants are gifts; they do not need to be repaid. Loans, on the other hand, have to be repaid with interest, while work-study jobs are a work obligation for the student. Aid can be need-based or non-need-based, though most people think of financial aid as being strictly need-based.

Loans. The main sources of loans are the federal government and private lenders. Students with the greatest financial need are eligible for the government's subsidized Stafford Loan and Perkins Loan ("subsidized" means Uncle Sam pays the interest while the student is in school and during certain other periods); all students are eligible for the government's unsubsidized Stafford Loan. The loan amounts are capped each year.

For parents, the government offers PLUS Loans, which let parents borrow up to the full cost of their child's education. Private lenders also offer student loans and parent loans. Generally, the government offers more favorable loan repayment options than private lenders, most notably several income-sensitive repayment options.

Grants & scholarships. Though students with the greatest financial need typically qualify for a federal Pell Grant, the main source of grants and scholarships for the majority of students is colleges. College grants and scholarships can be based on financial need (as determined by the college's own aid form) or on merit, whether academic, athletic, or some other talent. Colleges vary widely in the type (need-based or merit-based) and amount of grants and scholarships they offer. As your family researches college options, exploring these differences is probably the single biggest thing you can do to optimize your bottom line.

Work-study jobs. The government underwrites work-study jobs for the neediest students, but colleges may also offer campus jobs that are not necessarily based on need.