Precision Monthly

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College Saving: How Does a 529 Plan Compare to a Roth IRA?

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Settling an Estate: Executors Inherit Important Title

Being named as the executor of a family member's estate is generally an honor. It means that person has been chosen to handle the financial affairs of the deceased individual and is trusted to help carry out his or her wishes.

Settling an estate, however, can be a difficult and time-consuming job that could take several months to more than a year to complete. Each state has specific laws detailing an executor's responsibilities and timetables for the performance of certain duties.

If you are asked to serve as an executor, you may want to do some research regarding the legal requirements, the complexity of the particular estate, and the potential time commitment. You should also consider seeking the counsel of experienced legal and tax advisors.

Documents and details

A thoughtfully crafted estate plan with up-to-date documents tends to make the job easier for whoever fills this important position. If the deceased created a letter of instruction, it should include much of the information needed to close out an estate, such as a list of documents and their locations, contacts for legal and financial professionals, a list of bills and creditors, login information for important online sites, and final wishes for burial or cremation and funeral or memorial services.

An executor is responsible for communicating with financial institutions, beneficiaries, government agencies, employers, and service providers. You may be asked for a copy of the will or court-certified documentation that proves you are authorized to conduct business on behalf of the estate. Here are some of the specific duties that often fall on the executor.

Arrange for funeral and burial costs to be paid from the estate. Collect multiple copies of the death certificate from the funeral home or coroner. They may be needed to fulfill various official obligations, such as presenting the will to the court for probate, claiming life insurance proceeds, reporting the death to government agencies, and transferring ownership of financial accounts or property to the beneficiaries.

Notify agencies such as Social Security and the Veterans Administration as soon as possible. Federal benefits received after the date of death must be returned. You should also file a final income tax return with the IRS, as well as estate and gift tax returns (if applicable).

Protect assets while the estate is being closed out. This might involve tasks such as securing a vacant property; paying the mortgage, utility, and maintenance costs; changing the name of the insured on home and auto policies to the estate; and tracking investments.

Inventory, appraise, and liquidate valuable property. You may need to sort through a lifetime's worth of personal belongings and list a home for sale.

Pay any debts or taxes. Medical bills, credit card debt, and taxes due should be paid out of the estate. The executor and/or heirs are not personally responsible for the debts of the deceased that exceed the value of the estate.

Distribute remaining assets according to the estate documents. Trust assets can typically be disbursed right away and without court approval. With a will, you typically must wait until the end of the probate process.

The executor has a fiduciary duty — that is, a heightened responsibility to be honest, impartial, and financially responsible. This means you could be held liable if estate funds are mismanaged and the beneficiaries suffer losses.

If for any reason you are not willing or able to perform the executor's duties, you have a right to refuse the position. If no alternate is named in the will, an administrator will be appointed by the courts.

See disclaimer on final page

College Saving: How Does a 529 Plan Compare to a Roth IRA?

529 plan assets surpass $300 billion mark

As of September 2017, assets in 529 plans totaled $306 billion.

Source: Strategic Insight, 529 College Savings & ABLE, 3Q 2017 529 Data Highlights

Note

Investors should carefully consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. Specific information is available in each plan's official statement. Keep in mind that there is the risk that 529 plan investments may not perform well enough to cover costs as anticipated. Also consider whether your state offers any 529 plan state tax benefits and whether they are contingent on joining your own state's 529 plan. Other state benefits may include financial aid, scholarship funds, and protection from creditors.

529 plans were created 22 years ago, in 1996, to give people a tax-advantaged way to save for college. Roth IRAs were created a year later, in 1997, to give people a tax-advantaged way to save for retirement. But a funny thing happened along the way — some parents adapted the Roth IRA as a college savings tool.

Tax benefits and use of funds

Roth IRAs and 529 plans have a similar tax modus operandi. Both are funded with after-tax dollars, contributions accumulate tax deferred, and qualified distributions are tax-free. But in order for a 529 plan distribution to be tax-free, the funds *must* be used for college or K-12 education expenses. By contrast, a qualified Roth distribution can be used for anything — retirement, college, travel, home remodeling, and so on.

In order for a distribution from a Roth IRA to be tax-free (i.e., a qualified distribution), a five-year holding period must be met *and* one of the following must be satisfied: The distribution must be 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.

For purposes of this discussion, it's the first condition that matters: whether you will be 59½ or older when your child is in college. If the answer is yes (and you've met the five-year holding requirement), then your distribution will be qualified and you can use your Roth dollars to pay for college with no tax implications or penalties. If your child ends up getting a grant or scholarship, or if overall college costs are less than you expected, you can put those Roth dollars toward something else.

But what if you'll be younger than 59½ when your child is in college? Can you still use Roth dollars? You can, but your distribution will not be qualified. This means that the earnings portion of your distribution (but not the contributions portion) will be subject to income tax. (Note: Just because the earnings portion is subject to income tax, however, doesn't mean you'll necessarily have to pay it. Nonqualified distributions from a Roth IRA draw out contributions first and then earnings, so you could theoretically withdraw up to the amount of your contributions and not owe income tax.)

Also, if you use Roth dollars to pay for college, the 10% early withdrawal penalty that normally applies to distributions before age 59½ is waived. So the bottom line is, if you'll be younger than 59½ when your child is in college and you use Roth dollars to pay college expenses, you might owe income tax (on the earnings portion of the distribution), but you won't owe a penalty.

If 529 plan funds are used for any other purpose besides the beneficiary's qualified education expenses, the earnings portion of the distribution is subject to income tax *and* a 10% federal tax penalty.

Financial aid treatment

At college time, retirement assets aren't counted by the federal or college financial aid formulas. So Roth IRA balances will not affect financial aid in any way. (Note: Though the aid formulas don't ask for retirement plan *balances,* they typically do ask how much you *contributed* to your retirement accounts in the past year, and colleges may expect you to apply some of those funds to college.)

By contrast, 529 plans do count as an asset under both federal and college aid formulas. (Note: Only parent-owned 529 accounts count as an asset. Grandparent-owned 529 accounts do not, but withdrawals from these accounts are counted as student income.)

Investment choices

With a Roth IRA, your investment choices are virtually unlimited — you can hold mutual funds, individual stocks and bonds, exchange-traded funds, and REITs, to name a few.

With a 529 plan, you are limited to the investment options offered by the plan, which are typically a range of static and age-based mutual fund portfolios that vary in their level of risk. If you're unhappy with the market performance of the options you've chosen, under federal law you can change the investment options for your *existing* contributions only twice per calendar year (though you can generally change the investment options on your *future* contributions at any time).

Eligibility and contribution amounts

Unfortunately, not everyone is eligible to contribute to a Roth IRA. For example, your income must be below a certain threshold to make the maximum annual contribution of $5,500 (or $6,500 for individuals age 50 and older).

By contrast, anyone can contribute to a 529 plan; there are no restrictions based on income. Another significant advantage is that lifetime contribution limits are high, typically $300,000 and up. And 529 plan rules allow for large lump-sum, tax-free gifts if certain conditions are met — $75,000 for single filers and $150,000 for married joint filers in 2018, which is equal to five years' worth of the $15,000 annual gift tax exclusion.

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Weathering the Storm: Are You Prepared?

Severe weather can test even the most seasoned homeowners. And while storm hazards such as power outages, downed trees, and flooding can result in costly damage to your home, they can also put your family's safety at risk. The key to making it through a storm safely is to be prepared.

Protect your home

Before a storm arrives, you'll want to take proactive steps to prevent damage to your home, such as:

- Cleaning your gutters and downspouts so that water can flow freely away from your home
- Inspecting and repairing roof shingles and flashing to prevent water damage
- Trimming overhanging tree limbs
- Securing loose objects (e.g., grills and patio furniture)
- Parking your car and storing any heavy equipment (e.g., lawnmower) inside a garage
- Investing in storm windows, doors, and shutters

Have an emergency plan/stock up on supplies

A severe storm can cause power outages that last for days. It can also result in downed power lines, fallen trees, and flooding that make roads impassable. You'll want to have an emergency plan that identifies a place nearby where you can safely stay if you lose power for an extended period of time.

In addition, you should gather the necessary supplies you'll need to stay safe both during and after a storm. The following are some items to put together in an emergency supply kit.

Food/supplies. Stock up on enough nonperishable food to sustain you and your family for several days. You'll also want to store other items that are specific to your family's needs, such as infant formula, diapers, pet food, clothing, and blankets.

First aid/medicine. Be prepared for any possible medical needs by having a first aid kit. Also talk to your doctor about obtaining an extra prescription for important medications you take such as heart and blood pressure medications, insulin, and asthma inhalers.

Communication/safety items. Make sure your cell phones and other methods of electronic communication are fully charged before the storm arrives. Also gather additional safety items, such as matches, flashlights, batteries, and an AM/FM radio.

Important documents/valuables. Place important documents, such as personal records (e.g., birth and marriage certificates), property records (e.g., insurance policies), medical records, financial information (e.g., bank or credit card information), and any valuables in a secure location that is easily accessible in case of an emergency.

Review your insurance coverage

Review all of your insurance policies (e.g., homeowners, renters, and auto) to make sure that you have appropriate coverage for your property and belongings. Your home and its contents should be insured to their full replacement cost, including any new additions, remodels, and furniture. To assist with post-storm insurance claims, be sure to take pictures/videos and make an inventory of your home and valuables in case they are damaged or destroyed.

Keep in mind that certain types of storm damage (e.g., flood and hurricane) may not be covered by a standard policy or may require you to pay a separate deductible. If you live in a high-risk storm area, you may need to purchase insurance specifically designed for floods and hurricanes. Contact your insurance agent to determine if you need to purchase additional insurance above and beyond traditional coverage.

After the storm

If your home suffers severe storm damage from a natural disaster, you may be eligible for immediate disaster relief funds and special programs through the Federal Emergency Management Agency (FEMA) and various state/local government agencies.

You'll also need to file a claim for storm damage with your insurance company. To make the claims process easier, take pictures to document the damage — both inside and outside of your home — as soon as possible. While your claim is being processed, take steps to prevent further damage (e.g., putting a tarp on a damaged roof), since the insurance company may not cover any additional damage that occurs after the storm passes.

Keep in mind that the process for filing an insurance claim can take time, especially if your home is in an area that has been impacted by a large-scale storm. As a result, you should contact your insurer with any questions you may have regarding the claims process.

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How does working affect Social Security retirement benefits?

If you're thinking about working as long as possible to increase your retirement savings, you may be wondering whether you can receive Social Security retirement benefits while you're still employed. The answer is yes. But depending on your age, earnings from work may affect the amount of your Social Security benefit.

If you're younger than full retirement age and make more than the annual earnings limit ($17,040 in 2018), part of your benefits will be withheld, reducing the amount you receive from Social Security. If you're under full retirement age for the entire year, $1 is deducted from your benefit for every $2 you earn above the annual limit.

In the year you reach full retirement age, $1 is deducted from your benefit for every $3 you earn above a different limit ($45,360 in 2018).

Starting with the month you reach full retirement age, your benefit won't be reduced, no matter how much you earn.

Earnings that count toward these limits are wages from a job or net earnings from self-employment. Pensions, annuities, investment income, interest, and veterans or other government benefits do not count. Employee contributions to a pension or a retirement plan do count if the amount is included in your gross wages.

The Social Security Administration (SSA) may begin to withhold the required amount, up to your whole monthly benefit, as soon as it determines you are on track to surpass the annual limit. However, even if your benefits are reduced, you'll receive a higher monthly benefit at full retirement age, because the SSA will recalculate your benefit and give you credit for any earnings withheld earlier. So the effect that working has on your benefits is only temporary, and your earnings may actually increase your benefit later.

These are just the basics, and other rules may apply. The Retirement Earnings Test Calculator, available at the Social Security website, ssa.gov, can help you estimate how earnings before full retirement age might affect your benefit.

How can I lower my auto insurance premiums?

More and more, it's harder to keep up with the rising cost of auto insurance. According to one estimate, the average cost of auto insurance in 2017 for lower-risk drivers with good driving records was $1,178.[1]

Although the criteria vary from state to state, insurance companies may base auto insurance rates on a variety of factors, such as: your driving record, credit history, age, and gender; type of vehicle; number of miles driven; where you live/park your car; and number of claims filed. While the types and level of auto insurance coverage that you have (over and above your state's required minimum liability amounts) will primarily influence your premium costs, auto insurance premiums can vary widely. That's because premiums are customized for each policyholder using mathematical formulas that reflect the perceived level of risk.

Fortunately, there are things you can do if you think that your auto insurance costs are higher than normal. The following are some ways to help lower your premiums.

Raise your deductible. For the most part, the higher your deductible, the lower your premiums. Before you raise your deductible, though, you'll want to be sure you can cover the out-of-pocket expense should an accident occur.

Forgo any unnecessary coverage. If you have an older car with limited value, it may make sense to drop your collision and comprehensive coverage, because a claim paid by your insurance company may be minimal and might not exceed what you'd pay in premiums and deductibles. But keep in mind that this coverage may be required by a lender if you took out a loan to purchase the vehicle.

Take advantage of discounts. Depending on your circumstances, you may be eligible for one or more auto insurance discounts. For example, your insurer might provide discounts to those with a safe driving record or who insure more than one car with the company.

Shop around. Auto insurance rates vary from company to company, sometimes significantly. Compare the various rates offered by different insurers.

[1] AAA, Your Driving Costs, 2017

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