STIFEL

Wealth Planning Newsletter

Summer 2018 Issue

In This Issue

Please contact your Stifel Financial Advisor if you have any questions about the articles or for copies of the other materials mentioned in this newsletter.

End of Summer Financial Checklist

Provide for Your Future

- ☐ Consider whether an annuity could be beneficial for your retirement income planning.
- ☐ Review your life insurance situation to help protect your family's dreams.

DID YOU KNOW?
There is a $15.3 trillion estimated unmet life insurance need in the United States. By periodically reviewing your life insurance situation, you can help ensure that your family will be covered if something happens to you.[1]

Create a Financial Plan

- ☐ Identify your goals.
- ☐ Prioritize your goals.
- ☐ Consider the timing and frequency of your goals.
- ☐ Review your goals.

DID YOU KNOW?
The average American worker fails to use half of his or her allotted vacation days every year. Make summer vacation a priority. Creating a financial plan will help you incorporate an annual summer vacation as part of a sustainable lifestyle.[2]

Understand 529 Plans

- ☐ Learn the benefits of a 529 Plan.
- ☐ Determine what education expenses can be covered by a 529 Plan.
- ☐ Assess how tuition assistance will impact the use of a 529 Plan.
- ☐ Discuss with a tax professional how a 529 Plan relates to the American Opportunity Credit and Lifetime Learning Credit.

DID YOU KNOW?
63% of people who are saving for college are not using a 529 Plan. These people are missing out on valuable tax benefits.[3]

Plan for the Costs of Your Child's College Education

- ☐ Estimate future college costs.
- ☐ Consider how much you plan to save.
- ☐ Consider how much you or your child will need to borrow.
- ☐ Learn about the various loan options available.

DID YOU KNOW?
61% of families do not have a plan to pay for college. By creating a plan now, you may be able to maximize savings and minimize debt.[3]

Sources:
[1] LIMRA's 2012 report, "Closing the Insurance Gap: One Household at a Time"
[2] money.cnn.com
[3] Sallie Mae, "How America Pays For College"

Insuring Your Family's Dreams Through Life Insurance

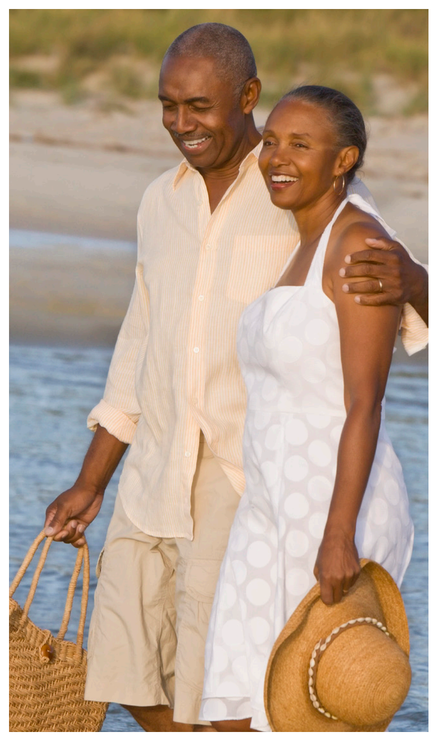
Life moves fast, but you need to take the time to consider what life insurance protection can mean for you and your loved ones. An insurance policy's death benefit could be the determining factor that allows your family to stay in the family home, afford college, and keep the family business.

Death benefit proceeds can help your family maintain their current standard of living by replacing lost income. Your loved ones can use the funds to help pay mortgages, auto loans, and credit card debt. The proceeds can also help your family pursue their financial goals, such as saving for college and leaving a legacy.

Life insurance is an essential element of sound financial planning. No one can predict the future. Having life insurance means you and your loved ones can prepare for any eventuality. You may find yourself sleeping easier at night knowing that your family has protection in place should something happen to you. Speak with your Stifel Financial Advisor to determine whether life insurance could be used to help insure your family's dreams.

Pursuing Retirement Goals With the Help of Annuities

Did you get to take that trip with the family this summer? If not, why? Studies find that many retirees or soon-to-be retirees live too conservatively because they are afraid of running out of money. More specifically, they are afraid of not having enough money to continue living the lifestyle that they have worked so hard to maintain. This comes as no surprise. Since traditional pensions have become a luxury of the past, the burden of retirement now primarily falls squarely on individuals. Accordingly, you should work with your Stifel Financial Advisor to develop a plan designed to allow you to pursue your retirement goals while providing some protection from market downturns and the risk of outliving your money. In doing so, you may want to consider whether an annuity is appropriate in your situation.



An annuity is an agreement with an insurance company. You pay the company a lump-sum premium. In return, you receive a fixed stream of income payments for the rest of your life. Annuities can be an important part of your portfolio, as they are designed to help you cover your basic living needs and expenses (e.g., food, mortgage, utilities, etc.) for as long as you live. Speak with your Stifel Financial Advisor about running a financial plan to determine the costs of your basic needs and to assess whether an annuity could help you pursue your retirement spending goals.

Annuities are not insured by the FDIC or any other government agency. Taxes will be due upon withdrawal, and withdrawals prior to age 59 ½ are subject to a 10% penalty. Withdrawals prior to the end of the guaranteed period are subject to a surrender charge and market value adjustment. Guarantees are based on the claims-paying ability of the insurance company.

What Comes First, the Chicken or the Pig?

Prioritizing Your Goals Through Financial Planning

Tennis legend Martina Navratilova once said, "The difference between involvement and commitment is like ham and eggs. The chicken is involved; the pig is committed." In many ways, your financial goals reflect the chicken and the pig. Certain goals may contribute to your financial well-being, while others are essential.

Goals-Based Planning

Your Stifel Financial Advisor can help you determine which goals are chickens and which goals are pigs through our comprehensive financial planning process. Our financial planning software, MoneyGuidePro, will help you plan your financial future by challenging you to assess the importance and timing of your goals. Implementing this goals-based approach to financial planning will allow you and your Stifel Financial Advisor to build more than a generic financial plan. You will work toward building a sustainable lifestyle for you and your family, one designed to help you enhance your working years while laying the foundation for a successful retirement.

Identifying Your Goals

In order to develop a sustainable lifestyle, you must first identify all of your financial goals. Stifel's Wealth Planning Questionnaire will guide you through this process. When filling out the Wealth Planning Questionnaire, you will be prompted to consider your Retirement Living Expense. The information that you include here will become the foundation of your financial plan. Your Retirement Living Expense will include those spending goals that are vital to your daily life, including but not limited to housing, utilities, food, clothing, and insurance. If you are having trouble identifying all of these expenses, ask your Stifel Financial Advisor for a copy of Stifel's Expense Worksheet. This one-page inventory can help you organize your thoughts and ensure that you do not overlook any of these basic living expenses.

After quantifying your Retirement Living Expense, you will be asked to consider your Lifestyle Goals. This is where you will identify all of your additional financial goals. Perhaps you want to pay for a family member's education, take an annual family vacation, or purchase a sailboat. By listing all of these financial goals, you will ensure that they are considered as you build a sustainable lifestyle through the financial planning process.

HELPFUL HINT

Pre-retirement goals are typically funded by wages. Retirement goals are funded first by income and then by assets.

What is your desired Retirement Living Expense?	Target After-Tax Amount $____ per year
Include Basic Expenses (food, clothes, utilities, etc.) Liability Payments	**Do Not Include** Health Care Expenses Additional Goals (travel, new home)

Prioritizing Your Goals

Not all Lifestyle Goals are created equal. Sailing the Caribbean in a new sailboat would be nice, but not if it prevents you from paying for a family member's education. Accordingly, our Wealth Planning Questionnaire will encourage you to assess the importance of your Lifestyle Goals on a scale from 1 to 10, with 10 being the most important. Lifestyle Goals that are critical to your happiness are considered needs. You should assign needs an importance rating of 8, 9, or 10. Lifestyle Goals that will enhance your happiness are considered wants. You should assign wants an importance rating of 4, 5, 6, or 7. Lifestyle Goals that are less important to your happiness are considered wishes. You should assign wishes an importance rating of 1, 2, or 3. By prioritizing your goals in this manner, you will help ensure that your financial resources are implemented effectively and responsibly.

HELPFUL HINT

If MoneyGuidePro determines that you will not have sufficient assets to fund all of your goals, it will first fund your Retirement Living Expense. Then, it will fund your Lifestyle Goals based on the importance rating you assigned each goal.

GOAL IMPORTANCE SCALE

Rate the importance of each Goal on a scale of 10 to 1,
with 10 being the most important.

NEEDS	WANTS	WISHES
10 9 8	7 6 5 4	3 2 1

Timing Your Goals

Once you have identified and prioritized your goals, it is important to consider the timing and frequency of those goals. Will you continue to travel with the same frequency as you grow older? Will you ever stop traveling? How often will you purchase a new vehicle? At what point will you no longer need to fund a family member's education? By considering the timing and frequency of your Lifestyle Goals, you and your Stifel Financial Advisor will be better equipped to build a sustainable lifestyle that accurately reflects your unique situation.

Description	Importance High – Low 10 1	Start Date	Target Amount	How Often? (if reoccurring)	End Date	Apply Inflation?
			$ per year	Every ___ years		☐ Yes ☐ No

Reviewing Your Goals

The only constant in life is change. Your family will grow older. You will change jobs. You will pick up new hobbies. You will make new friends. As you continue your journey down the road of life, you must periodically review your financial goals in order to sustain the lifestyle that you have worked so hard to build. After all, a goal you once considered a chicken, may now be a pig.

A Parent's Guide to 529 Plans

Do you have children in grades K-12 who are enrolled in a private school? Is your child flying the nest this fall to pursue a post-secondary education? If so, you may be eager to tap into the 529 Plan you have been funding for years. However, before making any distributions, consider the following questions.

What is the benefit of a 529 Plan?

Contributions to a 529 Plan grow tax-free so long as the funds are ultimately distributed to pay for the plan beneficiary's qualified education expenses. Prior to 2018, this tax incentive was only available if the plan was used to fund the beneficiary's post-secondary education. Under the Tax Cuts and Jobs Act of 2017, 529 Plans can now also be used to cover up to $10,000 of a child's K-12 tuition.

It is important to note, however, that some states have not updated their laws to include K-12 tuition as an eligible 529 Plan expense. To avoid potentially significant negative tax consequences, be sure to discuss your state's laws with your qualified tax professional prior to using your 529 Plan for this purpose.

What post-secondary education expenses can be covered by a 529 Plan?

While K-12 qualified education expenses are limited to tuition only, the rules for post-secondary qualified education expenses are more expansive. Qualified post-secondary education expenses include:

- Tuition and fees;
- Books;
- Supplies (including computers and computer supplies); and
- Room and board, limited to the greater of:
  1) the allowance for room and board included in the school's cost of attendance for federal financial aid calculations; or
  2) the actual amount charged if the student is living in housing operated by the educational institution.

Save your receipts! It may be helpful to separate these qualified purchases from other non-qualified purchases by running separate transactions at the checkout register.

How might a scholarship or other tax-free tuition assistance affect the use of 529 Plan funds?

Tax-free educational assistance, such as a Pell Grant, tax-free scholarship, tuition discount, or tax-free employer educational assistance program, reduces the amount payable from a 529 Plan. For example, if the cost of one semester of classes is $10,000, and the plan beneficiary receives a tax-free scholarship for $8,000, only the remaining $2,000 is eligible to be paid using the 529 Plan.

How do 529 Plans relate to the American Opportunity Tax Credit and Lifetime Learning Credit?

These tax credits can be extremely valuable. The American Opportunity Tax Credit (AOTC), for example, provides a tax credit of 100% of the first $2,000 of eligible expenses and 25% of the next $2,000 of eligible expenses for a total credit of $2,500. The Lifetime Learning Credit (LLC) provides a tax credit of 20% of the first $10,000 of eligible expenses for a total credit of $2,000. However, in order to be eligible for these credits, the eligible expenses used to claim the credit cannot be paid using 529 Plan funds. For example, if the beneficiary of a 529 Plan is eligible for the AOTC, it may be a good idea to leave $4,000 of qualified education expenses unpaid by the 529 Plan. This will allow the taxpayer to claim the full $2,500 AOTC.

Be aware that the AOTC begins to phase out once your modified adjusted gross income (MAGI) reaches a certain level. If your MAGI will prevent you from claiming the AOTC, you may choose to pay the qualified education expenses fully from your 529 Plan.

Do I need to designate the source of funds (e.g., 529 Plan funds, scholarship awards, out-of-pocket cash, etc.) used to pay different education expenses?

If you plan to use a 529 Plan to cover qualified post-secondary education expenses and also anticipate eligibility for the AOTC or LLC, be careful about which expenses are paid with 529 Plan funds. Room and board, for example, is not considered a qualified education expense for purposes of the AOTC or LLC. Therefore, if you plan to leave $4,000 of education expenses unpaid by the 529 Plan in order to claim the AOTC, be sure the $4,000 of expenses is not for room and board.

There are many important factors to consider before using a 529 Plan to pay for education expenses. The information listed above is not intended to be an exhaustive review of these factors. Before dipping into your 529 Plan, consult with your Stifel Financial Advisor and qualified tax professional to be sure you are well positioned to achieve the best results.

Investors should consider carefully the investment objectives, risks, and charges and expenses associated with a 529 Plan before investing or sending money. The official program offering statement, which includes information on municipal fund securities, is available from your Financial Advisor and should be read carefully before investing. The value of a 529 account may fluctuate, and there is no guarantee that any investment portfolio will achieve the stated goal. Your investment may be worth more or less than its original value.

Non-qualified withdrawals are taxable as ordinary income to the extent of earnings and may also be subject to a 10% federal income tax penalty. State tax treatment may differ. Investors should discuss their particular tax situation with a tax professional.

To Save, or to Borrow?
Covering the Costs of College

Just as it's never too early to begin planning for next year's summer vacation, it's never too early to begin thinking about your child's college education. The more you are able to save now, the less you or your child will have to borrow later. The first step is estimating the future cost of your child's education. Currently, the average annual cost of tuition and fees and room and board for a public in-state university is $20,770.[1]

The standard repayment period for federal student loans is ten years. This means if your child borrows $25,000 at current interest rates of 4.45%, their monthly repayment would be $258. The total amount they would pay over the life of their loan would be $31,019. However, by saving over a similar ten-year period in a 529 Plan that averages a hypothetical 6% annual return, you would need to set aside just $152 per month. Over a ten-year period, this would equate to total savings of over $12,700.[2]

Nonetheless, if student loans are in your child's future, you should familiarize yourself with the available options. The following chart illustrates the current federal student loan limits and program information for the 2018-2019 academic school year.

2018-2019 Federal Student Loan Limits and Program Information

	Dependent	Independent	Graduate	Interest Rate	
Direct Subsidized Undergraduate students	$3,500[3]	$3,500[3]	Ineligible	4.45%	Interest is paid by U.S. Department of Education as long as student is enrolled in school at least half-time. Repayment does not begin until six months after graduation. Eligibility is based on financial need.
Direct Unsubsidized Undergraduate and graduate students	$5,500[3]	$9,500[3]	$20,500[3]	4.45% | 6%[4]	Borrower is responsible for interest during all periods. Repayment does not begin until six months after graduation. Financial need is not required.
Federal Perkins Undergraduate and graduate students	$5,500	$8,000	$8,000	5%	Interest is paid by U.S. Department of Education as long as student is enrolled in school at least half-time. Repayment is determined by school. Eligibility depends on the student's financial need and availability of funds at the school.
Direct PLUS Graduate students and parents of undergraduate students	Cost of attendance – Financial aid received			7%	Borrower is responsible for interest during all periods. Repayment begins as soon as funds are dispersed. Financial need is not required. The borrower must not have adverse credit history.

Sources:
[1] Costs are based on the College Board Annual Survey of Colleges 2017-2018 published charges.
[2] This is a hypothetical illustration only and does not reflect actual performance of any particular investment.
[3] Amounts are based on first-year annual loan limits. Limits can increase, depending on grade level.
[4] 4.45% (undergraduate) | 6% (graduate students)

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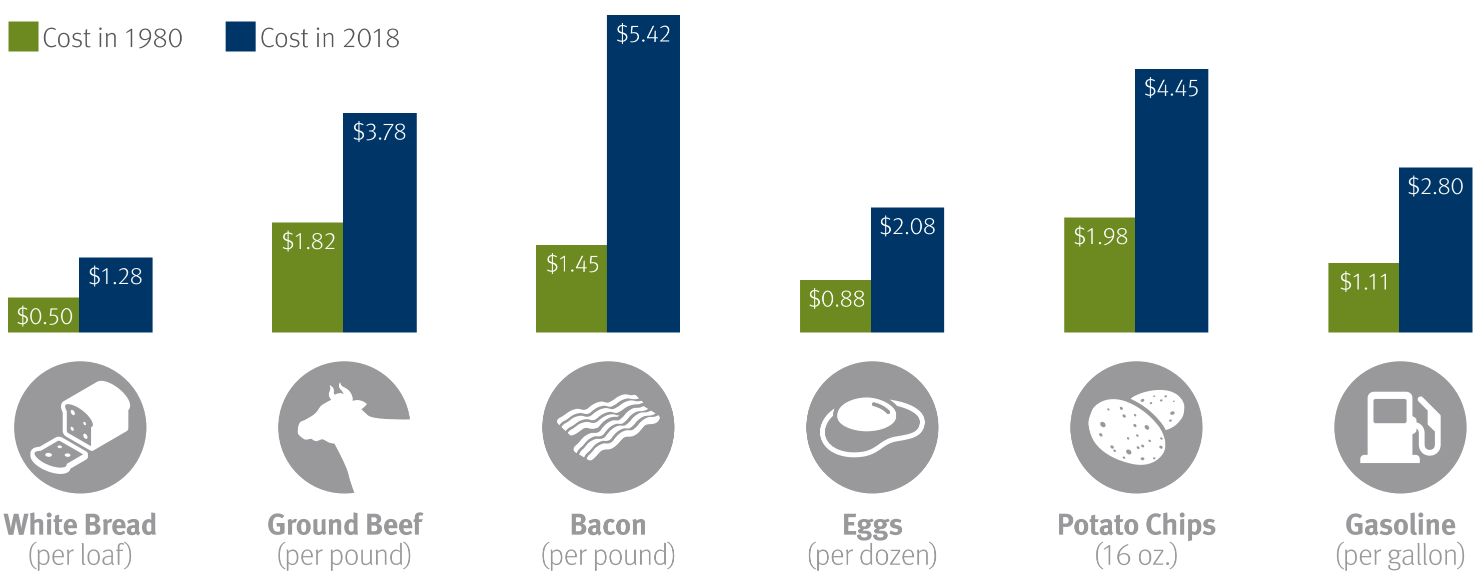
Cost of Items in 1980 vs 2018



Source: https://beta.bls.gov. Prices are rounded to the nearest cent and based on U.S. city average, average price, not seasonally adjusted.