FINANCE FOCUS

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Assessing Portfolio Performance: Choose Your Benchmarks Wisely

You can't help but hear about the frequent ups and downs of the Dow Jones Industrial Average or the S&P 500 index. The performance of both major indexes is widely reported and analyzed in detail by financial news outlets around the nation.

Like the Dow, the S&P 500 tracks the stocks of large domestic companies. With 500 stocks compared to the Dow's 30, the S&P 500 comprises a much broader segment of the stock market and is considered to be representative of U.S. stocks in general. Both indexes are generally useful tools for tracking stock market trends, but some investors mistakenly think of them as benchmarks for how well their own portfolios should be doing.

However, it doesn't make much sense to compare a broadly diversified, multi-asset portfolio to just one of its own components. Expecting portfolio returns to meet or beat "the market" is usually unrealistic, unless you are willing to expose 100% of your life savings to the risk and volatility associated with stock investments.

ASSET ALLOCATION: IT'S PERSONAL

Just about every financial market in the world is tracked by one or more indexes that investors can use to look at current and historical performance. In fact, there are hundreds of indexes based on a wide variety of asset classes (stocks/bonds), market segments (large/small cap), and styles (growth/value).

Investor portfolios are typically divided among asset classes that tend to perform differently under different market conditions. An appropriate mix of stocks, bonds, and other investments depends on the investor's age, risk tolerance, and financial goals.

Consequently, there may or may not be a single benchmark that matches your actual holdings and the composition of your individual portfolio. It could take a combination of several benchmarks to provide a meaningful performance picture.

KEEP THE PROPER PERSPECTIVE

Seasoned investors understand that short-term results may have little to do with the effectiveness of a long-term investment strategy. Even so, the desire to become a more disciplined investor is often tested by the arrival of quarterly or annual financial statements.

The main problem with making decisions based on last year's performance figures is that asset classes, market segments, or industries that do well during one period don't always continue to perform as well. When an investment experiences dramatic upside performance, it may mean that much of the opportunity for market gains has already passed. Conversely, moving out of an investment when it has a down year could mean you are no longer in a position to benefit when that segment starts to recover.

On the other hand, portfolios that are left unattended may drift and begin to take on too much risk or become too conservative. Rebalancing periodically could help bring your asset mix back in line with your preferred allocation.

There's really nothing you can do about global economic conditions or the level of returns delivered by the financial markets, but you can control the composition of your portfolio. Evaluating investment results through the correct lens may help you make appropriate adjustments and effectively plan for the future.

***Note**: Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security, and individuals cannot invest directly in an index. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments that seek a higher return tend to involve greater risk. Rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.*

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How can I protect my Social Security number from identity theft?

Your Social Security number is one of your most important personal identifiers.

If identity thieves obtain your Social Security number, they can access your bank account, file false tax returns, and wreak havoc on your credit report. Here are some steps you can take to help safeguard your number.

Never carry your card with you.

You should never carry your Social Security card with you unless it's absolutely necessary. The same goes for other forms of identification that may display your Social Security number (e.g., Medicare card).

Do not give out your number over the phone or via email/Internet.

Oftentimes, identity thieves will pose as legitimate government organizations or financial institutions and contact you to request personal information, including your Social Security number. Avoid giving out your Social Security number to anyone over the phone or via email/Internet unless you initiate the contact with an organization or institution that you trust.

Be careful about sharing your number.

Just because someone asks for your Social Security number doesn't mean you have to share it. Always ask why it is needed, how it will be used, and what the consequences will be if you refuse to provide it. If you think someone has misused your Social Security number, contact the Social Security Administration (SSA) immediately to report the problem. The SSA can review your earnings record with you to make sure their records are correct. You can also visit the SSA website at www.ssa.gov to check your earnings record online.

Unfortunately, the SSA cannot directly resolve any identity theft problems created by the misuse of your Social Security number. If you discover that someone is illegally using your number, be sure to contact the appropriate law-enforcement authorities. In addition, consider filing a complaint with the Federal Trade Commission and submitting IRS Form14039, Identity Theft Affidavit, with the Internal Revenue Service. Visit www.ftc.gov and www.irs.gov for more information.

When a Saver Marries a Spender, Every Penny Counts

If you're a penny pincher but your spouse is penny wise and pound foolish, money arguments may frequently erupt. Couples who have opposite philosophies regarding saving and spending often have trouble finding common ground. Thinking of yourselves as two sides of the same coin may help you appreciate your financial differences.

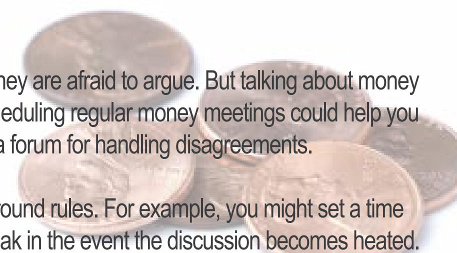
Heads or tails, saver or spender

If you're a saver, you love having money in the bank, investing in your future, and saving for a rainy day. You probably hate credit card debt and spend money cautiously. Your spender spouse may seem impulsive, prompting you to think, "Don't you care about our future?" But you may come across as controlling or miserly to your spouse who thinks, "Just for once, can't you loosen up? We really need some things!"

Such different outlooks can lead to mistrust and resentment. But are your characterizations fair? Your money habits may have a lot to do with how you were raised and your personal experience. Being a saver or a spender may come naturally; instead of assigning blame, try to see your spouse's side.

Start by discussing your common values. What do you want to accomplish together? Recognize that spenders may be more focused on short-term goals, while savers may be more focused on long-term goals. Ultimately, whether you're saving for a vacation, a car, college, or retirement, your money will be spent on something. It's simply a matter of deciding together when and how to spend it.

A penny for your thoughts?



Sometimes couples avoid talking about money because they are afraid to argue. But talking about money may actually help you and your spouse avoid conflict. Scheduling regular money meetings could help you gain a better understanding of your finances and provide a forum for handling disagreements.

To help ensure a productive discussion, establish some ground rules. For example, you might set a time limit, insist that both of you come prepared, and take a break in the event the discussion becomes heated. Communication and compromise are key. Don't assume you know what your spouse is thinking--ask--and be willing to negotiate. Here are some questions to get started.

- What does money represent to you? Security? Freedom? The opportunity to help others?
- What are your short-term and long-term savings goals?
- How much money is coming in and how much is going out? Never assume that your spouse knows as much about your finances as you do.
- How comfortable are you with debt, including mortgage debt, credit card debt, and loans?
- Who should you spend money on? Do you agree on how much to give to your children or how much to spend on gifts to family members and friends, for example?
- What rules would you like to apply to purchases? One option is to set a limit on how much one spouse can spend on an item without consulting the other.
- Would you like to set aside some discretionary money for each of you? Then you would be free to save or spend those dollars without having to justify your decision.

Once you've explored these topics, you can create a concrete budget or spending plan that reflects your financial personalities. To satisfy you and your spouse, make savings an "expense" and allow some room in the budget for unexpected expenses. And track your progress. Having regular meetings to go over your finances will enable you to celebrate your financial successes or identify areas where you need to improve. Be willing to make adjustments if necessary.

Finally, recognize that getting on the same page is going to take some work. When you got married, you promised to love your spouse for richer or poorer. Maybe it's time to put your money where your mouth is.

Frequently Asked Questions on Opening a 529 Plan Account

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?

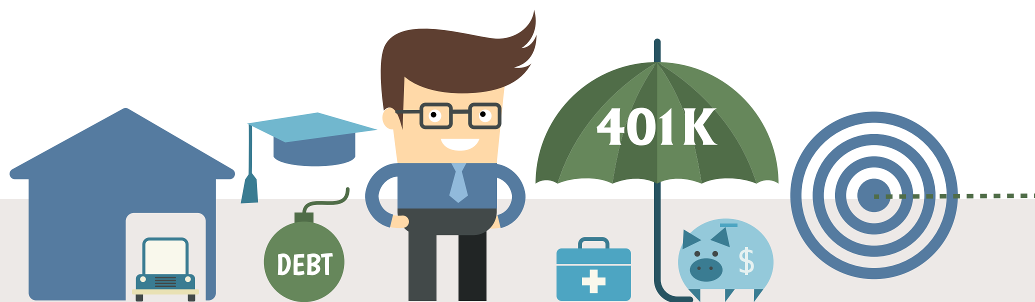
Answer: Yes. You (or anyone else) can open multiple 529 accounts for the same beneficiary, as long as you do so under different 529 plans (college savings plan or prepaid tuition plan). For example, you could open a college savings plan account with State A and State B for the same beneficiary, or you 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.



My employer now offers wellness benefits as part of its employee benefits package. *But what are they?*

It's no surprise that your company has started offering wellness benefits, since many employers are already offering these types of programs as part of an overall employee benefits package. According to the Society for Human Resource Management (SHRM), in 2015, 80% of organizations provided wellness resources and information, and 70% of organizations offered some type of wellness program to their employees. (Source: 2015 Employee Benefits, Society for Human Resource Management, 2015)

When it comes to running a business, wellness benefits are definitely a win-win for most employers. Not only do they potentially reduce health-care costs by promoting healthier living, but they may also boost employee productivity and morale. The types of wellness programs vary among employers, but they typically cover a variety of healthy living issues, such as:

- **Smoking cessation**
- **Exercise/physical fitness**
- **Weight loss**
- **Nutritional education**
- **Health screenings**

More recent additions to the wellness benefits arena include fitness/activity tracking, credit for registering and participating in marathons/races, and company-sponsored seasonal weight-loss challenges. For employees, wellness benefits not only can help them adopt and live a healthier lifestyle, but can also provide them with financial benefits. Currently, employers that offer wellness programs are allowed to offer incentives to employees of up to 30% of the cost of their health-care premium (up to 50% for smoking cessation). These incentives are usually in the form of premium discounts and/or cash rewards. It's important to note that with certain types of wellness incentives, such as cash bonuses or gift certificates, the value of the reward may be treated as taxable wages. As a result, it may be subject to payroll taxes.

SIX COMMON 401(K) PLAN MISCONCEPTIONS

Do you really know as much as you think you do about your 401(k) plan? Let's find out.

1. If I leave my job, my entire 401(k) account is mine to keep. This may or may not be true, depending on your plan's "vesting schedule." Your own contributions to the plan--that is, your pretax or Roth contributions--are always yours to keep. While some plans provide that employer contributions are also fully vested (i.e., owned by you) immediately, other plans may require that you have up to six years of service before you're entitled to all of your employer contributions (or you've reached your plan's normal retirement age). Your 401(k)'s summary plan description will have details about your plan's vesting schedule.

2. Borrowing from my 401(k) plan is a bad idea because I pay income tax twice on the amount I borrow. The argument is that you repay a 401(k) plan loan with dollars that have already been taxed, and you pay taxes on those dollars again when you receive a distribution from the plan. Though you might be repaying the loan with after-tax dollars, this would be true with any type of loan. And while it's also true that the amount you borrow will be taxed when distributed from the plan (special rules apply to loans from Roth accounts), those amounts would be taxed regardless of whether you borrowed money from the plan or not. So the bottom line is that, economically, you're no worse off borrowing from your plan than you are borrowing from another source (plus, the interest you pay on a plan loan generally goes back into your account). But keep in mind that borrowing from your plan reduces your account balance, which may slow the growth of your retirement nest egg.

3. Because I make only Roth contributions to my 401(k) plan, my employer's matching contributions are also Roth contributions. Employer 401(k) matching contributions are always pretax--whether they match your pretax or Roth contributions. That is, those matching contributions, and any associated earnings, will always be subject to income tax when you receive them from the plan. You can, however, convert your employer's matching contributions to Roth contributions if your plan allows. If you do, they'll be subject to income tax in the year of the conversion, but future qualified distributions of those amounts (and any earnings) will be tax free.

4. I contribute to my 401(k) plan at work, so I can't contribute to an IRA. Your contributions to a 401(k) plan have no effect on your ability to contribute to a traditional or Roth IRA. However, your (or your spouse's) participation in a 401(k) plan may adversely impact your ability to deduct contributions to a traditional IRA, depending on your joint income.

5. I have two jobs, both with 401(k)s. I can defer up to $18,000 to each plan. Unfortunately, this is not the case. You can defer a maximum of $18,000 in 2015, plus catch-up contributions if you're eligible, to all your employer plans (this includes 401(k)s, 403(b)s, SARSEPs, and SIMPLE plans). If you contribute to more than one plan, you're generally responsible for making sure you don't exceed these limits. Note that 457(b) plans are not included in this list. If you're lucky enough to participate in a 401(k) plan and a 457(b) plan you may be able to defer up to $36,000 (a maximum of $18,000 to each plan) in 2015, plus catch-up contributions.

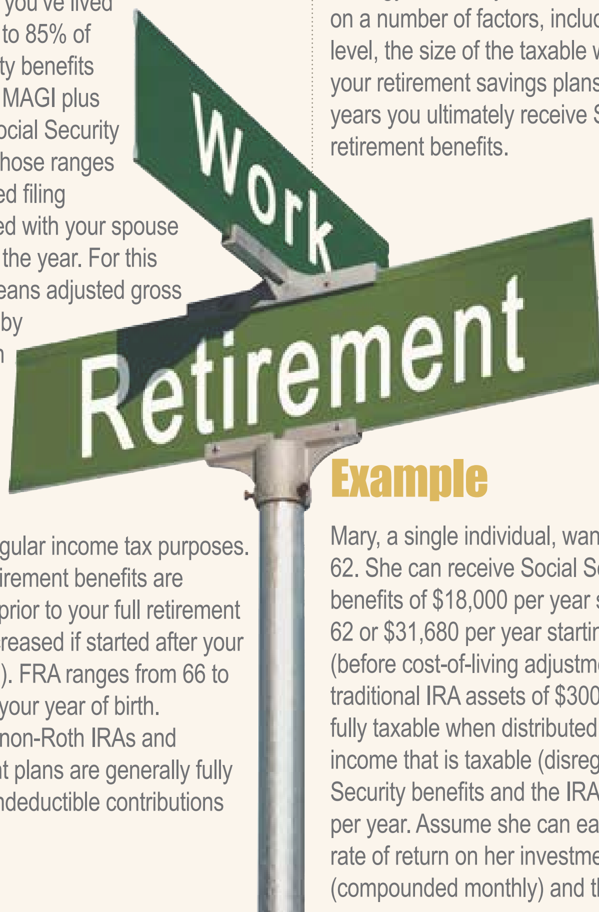
6. I'm moving to a state with no income tax. I've heard my former state can still tax my 401(k) benefits when I retire. While this was true many years ago, it's no longer the case. States are now prohibited from taxing 401(k) (and most other) retirement benefits paid to nonresidents. As a result, only the state in which you reside (or are domiciled) can tax those benefits. In general, your residence is the place where you actually live. Your domicile is your permanent legal residence; even if you don't currently live there, you have an intent to return and remain there.

Taxes, Retirement, and Timing Social Security

The advantages of tax deferral are often emphasized when it comes to saving for retirement. So it might seem like a good idea to hold off on taking taxable distributions from retirement plans for as long as possible. (Note: Required minimum distributions from non-Roth IRAs and qualified retirement plans must generally start at age 70½.) But sometimes it may make more sense to take taxable distributions from retirement plans in the early years of retirement while deferring the start of Social Security retirement benefits.

Some basics

Up to 50% of your Social Security benefits are taxable if your modified adjusted gross income (MAGI) plus one-half of your Social Security benefits falls within the following ranges: $32,000 to $44,000 for married filing jointly; and $25,000 to $34,000 for single, head of household, or married filing separately (if you've lived apart all year). Up to 85% of your Social Security benefits are taxable if your MAGI plus one-half of your Social Security benefits exceeds those ranges or if you are married filing separately and lived with your spouse at any time during the year. For this purpose, MAGI means adjusted gross income increased by certain items, such as tax-exempt interest, that are otherwise excluded or deducted from your income for regular income tax purposes. Social Security retirement benefits are reduced if started prior to your full retirement age (FRA) and increased if started after your FRA (up to age 70). FRA ranges from 66 to 67, depending on your year of birth. Distributions from non-Roth IRAs and qualified retirement plans are generally fully taxable unless nondeductible contributions have been made.



Accelerate income, defer Social Security

It can sometimes make sense to delay the start of Social Security benefits to a later age (up to age 70) and take taxable withdrawals from retirement accounts in the early years of retirement to make up for the delayed Social Security benefits. If you delay the start of Social Security benefits, your monthly benefits will be higher. And because you've taken taxable distributions from your retirement plans in the early years of retirement, it's possible that your required minimum distributions will be smaller in the later years of retirement when you're also receiving more income from Social Security. And smaller taxable withdrawals will result in a lower MAGI, which could mean the amount of Social Security benefits subject to federal income tax is reduced. Whether this strategy works to your advantage depends on a number of factors, including your income level, the size of the taxable withdrawals from your retirement savings plans, and how many years you ultimately receive Social Security retirement benefits.

Example

Mary, a single individual, wants to retire at age 62. She can receive Social Security retirement benefits of $18,000 per year starting at age 62 or $31,680 per year starting at age 70 (before cost-of-living adjustments). She has traditional IRA assets of $300,000 that will be fully taxable when distributed. She has other income that is taxable (disregarding Social Security benefits and the IRA) of $27,000 per year. Assume she can earn a 6% annual rate of return on her investments (compounded monthly) and that Social Security benefits receive annual 2.4% cost-of-living increases. Assume tax is calculated using the 2015 tax rates and brackets, personal exemption, and standard deduction.

Option 1. One option is for Mary to start taking Social Security benefits of $18,000 per year at age 62 and take monthly distributions from the IRA that total about $21,852 annually.

Option 2. Alternatively, Mary could delay Social Security benefits to age 70, when her benefits would start at $38,299 per year after cost-of-living increases. To make up for the Social Security benefits she's not receiving from ages 62 to 69, during each of those years she withdraws about $40,769 to $44,094 from the traditional IRA--an amount approximately equal to the lost Social Security benefits plus the amount that would have been withdrawn from the traditional IRA under the age 62 scenario (plus a little extra to make the after-tax incomes under the two scenarios closer for those years). When Social Security retirement benefits start at age 70, she reduces monthly distributions from the IRA to about $4,348 annually. Mary's after-tax income in each scenario is approximately the same during the first 8 years. Starting at age 70, however, Mary's after-tax income is higher in the second scenario, and the total cumulative benefit increases significantly with the total number of years Social Security benefits are received.*

SICounsel Webinar Series

The SICounsel Market Update Webinar Series will be held on Thursday, February 11, 2016 at 1:00 p.m. EST. Topics will include current market conditions, the state of the economy, investment trends, and a other related topics. We will also take questions at the end of the webinar. **Sign up today at www.SICounsel/news.com.**

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I've recently changed my legal name. Do I need to change my name on my Social Security card?

Whenever an individual legally changes his or her name, it is important to contact the Social Security Administration (SSA) as soon as possible. Failure to notify the SSA of a name change could prevent your wages from being posted correctly to your Social Security earnings record and might even result in a delay when you file your taxes. To obtain a new card with your new name, you need to provide the SSA with a recently issued document that proves your identity and legal name change. Acceptable documents include:

- **Marriage certificate**
- **Divorce decree**
- **Certificate of Naturalization showing new name**
- **Court order for approving the name change**

If the document you provide doesn't offer enough information for the SSA to identify you in their records, you must also provide an identity document in your old name (expired documents with your old name are allowed). In addition, if you were born outside the United States or you aren't a U.S. citizen, you typically must provide documentation to prove U.S. citizenship or lawful noncitizen status.

Once you have gathered the appropriate documentation, you need to complete the SSA Application for a Social Security Card. However, Social Security card applications are not accepted on the SSA website. As a result, you need to take or mail your application, along with your supporting documents, to your local Social Security office. For more information on applying for a new Social Security card or finding a Social Security office in your area, visit the Social SecurityAdministration website at www.ssa.gov.

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Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will either be suitable or profitable for a client's portfolio. There is no guarantee that a portfolio will match or outperform any particular benchmark.

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