HELPING YOU UNDERSTAND THE COMPLEXITIES OF WEALTH MANAGEMENT AND PROVIDING SOLUTIONS AS UNIQUE AS YOUR GOALS

WEALTH MANAGEMENT NEWSLETTER

Fall 2017

In this issue:

CAN I ROLL MY TRADITIONAL 401(K) ACCOUNT BALANCE TO A ROTH IRA?

Yes, you can make a direct or 60-day rollover from a 401(k) plan [or other qualified plan, 403(b) plan or governmental 457(b) plan] to a Roth IRA, as long as you meet certain requirements.*

First, you must be entitled to a distribution from your plan. While you can always access your account when you terminate employment, in some cases you may be able to withdraw your own or your employer's contributions while you're still working (for example, at age 59½).

[Note: Your plan may also permit the 'in plan' conversion of all or part of your account balance to a Roth account, regardless of whether you're eligible for a distribution from the plan. Check with your plan administrator.]

Second, your distribution must be an eligible rollover distribution. Distributions that cannot be rolled over include hardship withdrawals, certain periodic payments and required minimum distributions (RMDs).

Third, you must include the taxable portion of the distribution in your gross income in the year you make the rollover (conversion). But that's the price you have to pay to potentially receive tax-free qualified distributions from your Roth IRA in the future.

Fourth, if your distribution includes both after-tax and pre-tax dollars, you can generally direct that only the after-tax dollars be rolled over to the Roth IRA (resulting in a tax-free conversion), while making a tax-deferred rollover of the pre-tax dollars to a traditional IRA.

When evaluating whether to initiate a rollover from an employer plan to an IRA, be sure to:

1. Ask about possible surrender charges that your employer plan or IRA may impose
2. Compare investment fees and expenses charged by your IRA with those charged by your employer plan (if any)
3. Understand any accumulated rights or guarantees you may be giving up by transferring funds out of your employer plan

Also consider all of your distribution options, including leaving the money in your employer's plan, transferring the funds to a new employer's plan or taking a cash withdrawal.

*If you make a 60-day rollover, your plan will withhold 20 percent of the taxable portion of your distribution for federal income tax purposes.

TEST YOUR INVESTING IQ

How much do you know about market basics? Put your investing IQ to the test with this quiz on stocks, bonds and mutual funds.

Questions

1. **What does it mean to buy stock in a company?**
   a. The investor loans money to the company.
   b. The investor becomes part owner of the company.
   c. The investor is liable for the company's debts.

2. **Which of the following statements about stock indexes is correct?**
   a. A stock index is an indicator of stock price movements.
   b. There are many different types of stock indexes.
   c. They can be used as benchmarks to compare the performance of an individual investment to a group of its peers.
   d. All of the above.

3. **What is a bond?**
   a. An equity security
   b. A nonnegotiable note
   c. A debt investment in which an investor loans money to an entity

4. **What kind of bond pays no periodic interest?**
   a. Zero-coupon
   b. Floating-rate
   c. Tax-exempt

5. **What is a mutual fund?**
   a. A portfolio of securities assembled by an investment company
   b. An investment technique of buying a fixed dollar amount of a particular investment regularly
   c. A legal document that provides details about an investment

6. **What is the difference between mutual fund share classes?**
   a. The investment advisers responsible for managing each class
   b. The investments each class makes
   c. The fees and expenses charged by each fund class

Answers

1. **b. The investor becomes a part owner of the company.** Stocks are often referred to as equities because they represent an ownership position. As part owners, shareholders assume both the potential financial risks and benefits of this position, but without the responsibility of running the company.

2. **d. All of the above.** A stock index measures and reports value changes in representative stock groupings. A broad-based stock index represents a diverse cross-section of stocks and reflects movements in the market as a whole. The Dow Jones Industrial Average, NASDAQ Composite Index and S&P 500 are three of the most widely used U.S. stock indexes. There are also more narrowly focused indexes that track stocks in a particular industry or market segment.

3. **c. A debt investment in which an investor loans money to an entity.** Unlike shareholders, bondholders do not have ownership rights in a company. Instead, investors who buy bonds are lending their money to the issuer (such as a municipality or a corporation) and thus become the issuer's creditors.

4. **a. Zero-coupon.** Unlike many types of bonds, zero-coupon bonds pay no periodic interest. They are purchased at a discount, meaning the purchase price is lower than the face value. When the bond matures, the difference between the purchase price and that face value is the investment's return.

5. **a. A portfolio of securities assembled by an investment company.** A mutual fund is a pooled investment that may combine dozens to hundreds of stocks, bonds and other securities into one portfolio shared by many investors.

6. **c. The fees and expenses charged by each fund class.** A mutual fund may offer various share classes to investors, most commonly A, B and C. This gives an investor the opportunity to select a share class best suited to his or her investment goals.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

LIFE IS FOR THE LIVING, AND SO IS LIFE INSURANCE

Life can be busy. The requirements of work and family often leave little time to step back and think about where you've been and where you're heading. But as your responsibilities grow, so does the need to evaluate what would happen if life for you stopped. September is Life Insurance Awareness Month and a good time to reflect on how life insurance can help those you leave behind—the living.

Your spouse or life partner

A successful marriage is often predicated on sharing and providing for one another, and that includes each other's financial obligations. If you were suddenly no longer in the picture, would there be enough money to pay for your final expenses, cover debt, and buy some time to allow your significant other to adjust to a new way of life? Life insurance can provide funds to cover immediate expenses and income to help support your surviving loved one.

Your children

You've worked hard to provide for your kids, to give them the chance to realize their hopes and dreams. Your children are likely your greatest responsibility—a responsibility that doesn't end with your passing. Whether your children are in diapers or about to enter college, if something happened to you or your spouse, or both of you, would there be enough income to continue to provide financially for your children? Life insurance can help provide the resources for their continued growth and maturation.

Your home

Buying a home may be the largest single expenditure of your life. While being a homeowner is exciting, mortgage payments, often lasting 30 years, along with maintenance, utility costs, homeowners insurance, and real estate taxes can add up to a long-term financial commitment. Adequate life insurance protection can provide funds that could be used to cover these expenses, allowing your family to remain in their home.

Your business

Do you own your own business? Life insurance can fit into your business plan in many ways. It can be part of an employee benefit program, with coverage under a group plan. Life insurance purchased on the lives of certain key employees can protect your company from the loss of talented and valuable workers. And life insurance can be used to fund a buy-sell agreement.

Caring for an aging parent or loved one

Are you caring for an aging parent or loved one? Would the people who depend on you be able to afford quality health care and a comfortable place to live without your financial support? Life insurance can become extremely important in these situations, helping to provide for these individuals in the event of your death.

Planning for retirement

Preparing for retirement probably means you're saving as much as you can in your 401(k), IRA or other savings vehicle. If you die before you get to enjoy your retirement, will your retirement plan die for your surviving loved ones as well? Not only will your salary be unavailable to help pay for current living expenses, but your income won't be there to build the nest egg for the retirement of your spouse or life partner. Life insurance can help provide funds that can be used for your spouse's or life partner's retirement.

Your health has changed

If your health declines, how will it affect your life insurance? A common worry is that your insurer could cancel your coverage should your health change. However, changes to your health will not affect your current insurance coverage, provided you continue to pay your premiums on time. In fact, you should take a closer look at your life insurance policy to find out if it offers any accelerated (living) benefits that you can access in the event of a serious or long-term illness.

Leaving a legacy

Life insurance can be used to increase the size of an estate for your heirs. The death benefit could provide your beneficiaries with a larger legacy than might otherwise be possible. The cost of life insurance may be significantly less than the proceeds of the policy paid to your beneficiaries when you die.

Charitable giving

Donating a life insurance policy to a charity may enable you to make a larger gift than you otherwise could afford. Further, the government encourages charitable giving by providing tax advantages for certain charitable donations (the charity must be a qualified charity). This means that both you and the charity could benefit from your donation (though some charities may not accept a gift of life insurance for various reasons).

HOW DO ECONOMISTS MEASURE INFLATION, AND WHY DOES IT MATTER TO INVESTORS?

The Federal Open Market Committee (FOMC) adjusts interest rates to help keep inflation near a 2 percent target. The FOMC's preferred measure of inflation is the Price Index for Personal Consumption Expenditures (PCE), primarily because it covers a broad range of prices and picks up shifts in consumer behavior. Federal Reserve (FED) also focuses on core inflation measures, which strip out volatile food and energy categories that are less likely to respond to monetary policy.

The typical American might be more familiar with the Consumer Price Index (CPI), which was the Fed's favorite inflation gauge until 2012. The Consumer Price Index for All Urban Consumers (CPI-U) is used to determine cost-of-living adjustments for federal income taxes and Social Security.

The CPI only measures the prices that consumers actually pay for a fixed basket of goods, whereas the PCE tracks the prices of everything that is consumed, regardless of who pays. For example, the CPI includes a patient's out-of-pocket costs for a doctor's visit, while the PCE considers the total charge billed to insurance companies, the government and the patient.

The PCE methodology uses current and past expenditures to adjust category weights, capturing consumers' tendency to substitute less expensive goods for more expensive items. The weighting of CPI categories is only adjusted every two years, so the index does not respond quickly to changes in consumer spending habits, but it provides a good comparison of prices over time.

According to the CPI, inflation rose 2.1 percent in 2016—right in line with the 20-year average of 2.13 percent.[1] This level of inflation may not be a big strain on the family budget, but even moderate inflation can have a negative impact on the purchasing power of fixed-income investments. For example, a hypothetical investment earning 5 percent annually would have a real return of only 3 percent during a period of 2 percent annual inflation.

Of course, if inflation picks up speed, it could become a more pressing concern for consumers and investors.

1 U.S. Bureau of Labor Statistics, 2017 (data through December 2016)