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What steps should you be taking now to prepare your child or grandchild for college?

Please plan to join us for this valuable seminar:

College Planning
Thursday, September 27, 2012
7:00 PM
Southern Research & Outreach Center, Waseca

Special Guest Speakers:
Jeff Younge, Director of Financial Aid, Bethany Lutheran College

Ryan Curry, John Hancock

Please call to reserve your seat, **507-835-9111.** We look forward to seeing you there!

SEPTEMBER 2012

It's Time to Start Planning for College

The Investment Policy Statement: A Portfolio's Road Map

Is Your 529 Plan Making the Grade?

Do I have the right type of life insurance?

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It's Time to Start Planning for College

As another school year begins, we are also getting closer to that day when we'll drop off our children at college. A lot of emotion comes with this change, and one heartache is, "How are we going to pay for all this?" The answer is, "With college planning." If you have a moment, log onto our website and visit the college video on our home page at www.iwealth4me.com .

Options
It's hard to argue against the idea that children need some type of formal training after high school to prepare them for future careers. They may start with only one year of schooling, but if they have training behind them, they will have a better chance of finding a job — and securing a higher-paying one. Certainly we have many options when it comes to planning for the cost of secondary education.

One option is to open an account at a local bank or investment company where you will be the custodian over the account until your child meets the age of majority, which varies from state to state. These accounts are mostly Uniform Transfers or Gifts to Minors (UTMA or UGMA) accounts, and the tax ID number on the account is that of your child's. The advantage is that the funds are not in your name for tax purposes. The funds within the account are your child's, no matter who puts the money into it. A couple of disadvantages with these types of accounts would include no tax deferral option and no changes to the beneficiary.

Another option is to set up a 529 college savings plan. Typically 529s are set up through investment companies and are easy to invest into. Some will allow you to start a plan for as little as $15 per month. The advantages with the 529 plan are numerous and include tax deferral of your money while it's in the account, which comes out tax free (like a Roth IRA) if used for qualified college expenses. Grandparents like them because they can shift the college money out of their estate. The drawbacks are that if you use the money for something other than college, you will be taxed on the earnings and will need to pay a 10 percent penalty on them. These 529s have been a preferred college savings method since the state-sponsored plans were introduced.

Philosophy
Over the past 18 years of working with clients, I've seen just about everything when it comes to college planning. Some parents don't want to save anything for their children's college costs. They believe that if their children pay for their education, they will better understand its value. I've also had clients pay 100 percent of college expenses for their children. I think a lot of it comes back to parenting and helping children get over the hurdles as they come.

The majority of my clients have been in between these two extremes. They want to help their children with college expenses but quite frankly can't cover the full load or might not want to. They can't sacrifice their own retirement for their children's college education. It's just the financial reality, especially with tuition continually rising faster than inflation and the hit that many people's retirement funds took a few years ago.

Whether you are currently saving for college or not, whether you are a grandparent or parent, it's important to think through your strategy and become informed. At iWealth we believe in education, both for the benefit of our clients' decision-making and their children's future, and that is why we are hosting an event co-sponsored with First National Bank on Sept. 27 at 7 p.m. at the Southern Research & Outreach Center. This event will feature speakers from Bethany Lutheran College and John Hancock. We will be discussing these topics in more detail as well as how to prepare your high school child to get into college. Please inquire at iWealth to be added to the event.

A four-year college degree is not for everyone; however, secondary education makes sense for most of us. Along with that education comes the cost of it. Get informed, review your plan and stay focused on your goals.

Brad Connors, CWS®
**See 529 Plan disclosure on page 3.*

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The Investment Policy Statement: A Portfolio's Road Map

Even though an investment policy statement may target a desired return on the portfolio, that does not mean the portfolio will necessarily achieve that return. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

In some cases, investors choose to authorize a money manager to make the actual investing decisions for their portfolio rather than simply make recommendations. In such cases, it can be valuable to have a mechanism for making sure in advance that investor and manager are on the same page.

An investment policy statement (IPS) is designed to ensure that both sides understand the scope of the manager's decision-making authority and the guidelines on which investment decisions will be based. The portfolio's owner can take comfort in knowing that the investment manager has a clear sense of what's expected, while the manager can employ his or her best judgment and experience in following the IPS guidelines.

An investment policy statement also can be used by an investment committee--for example, officials responsible for managing the assets of a nonprofit organization, pension fund, or university endowment--to spell out the policies underlying the committee's investment decisions. Such a statement can increase transparency and improve consistency in case of turnover in committee membership.

Though an investment policy statement can be as simple or as complex as the parties involved want it to be, here are a few elements that are likely to appear.

Roles and responsibilities

An IPS generally spells out which accounts are covered by the policy statement and establishes procedures to be followed--for example, how subsequent modifications to the IPS itself will be handled. It also may set forth a process for ongoing monitoring of the portfolio, such as how often the investment manager will report on performance. In the case of an institutional investor, the IPS may specify who will be responsible for reviewing those reports and communicating with the investment manager, and which party is responsible for documenting compliance with any regulatory requirements.

Investment objectives and/or philosophy

An IPS generally will spell out the portfolio owner's goals and objectives. For example, it might state that the portfolio's primary goal is providing a certain level of income annually, or pursuing maximum growth; it also might specify how much volatility the owner is comfortable with. Such guidelines will affect the portfolio's asset allocation and the manager's selection of individual investments, though there obviously is no guarantee that a portfolio might not occasionally exceed the agreed-upon volatility guidelines or fail to achieve the desired goal.

Asset allocation and criteria for investment selection

Based on the above factors, an IPS may specify asset classes that are or are not appropriate for the portfolio. For example, it might allow investments in both individual bonds and bond funds, but exclude investments in the sovereign bonds of emerging markets. As a general rule, an IPS does not name specific securities for either inclusion or exclusion, permitting the manager to select individual securities within the approved asset classes. However, there may be exceptions--for example, when an investor already has a concentrated stock position. An investor who holds a large number of shares accumulated by exercising stock options granted as part of an employee compensation program might want to ensure that those holdings are not increased.

An IPS may or may not spell out a general asset allocation for a portfolio or set targeted ranges for each permitted asset class; for example, it might permit a portfolio's allocation to equities to range from 50% to 70%. It also may specify how often or under what circumstances the portfolio will be rebalanced to maintain a targeted asset allocation; set liquidity and marketability requirements; outline any specific cash reserves needed; and encourage or prohibit tax management strategies.

Criteria for gauging performance

A portfolio that doesn't produce the return necessary to meet its owner's financial and legal obligations--for example, pension payments owed by a pension fund--has even bigger problems than a portfolio that falls short of providing the return hoped for by an individual owner. That's why an IPS will often include expected performance criteria, such as a targeted percentage return or a requirement that the portfolio's assets match or exceed the performance of one or more appropriate benchmark indices.

As you can see, an IPS can be as detailed or as general as the parties involved feel is appropriate. Your financial professional can help you explore whether an IPS is appropriate for your individual situation.

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Is Your 529 Plan Making the Grade?

If you're one of the millions of parents or grandparents who've invested money in a 529 plan, the arrival of a new academic year may be a good time to see how your plan stacks up against the competition. Mediocre investment returns, higher-than-average fees, limited investment options and flexibility--these are some of the things that might have you thinking you could do better with another plan.

As of June 2011, there were 8.8 million open 529 college savings plan accounts (Source: College Board, *Trends in Student Aid,* 2011). If you're one of the millions of parents or grandparents who've invested money in a 529 college savings plan, the arrival of a new academic year may be a good time to see how your plan stacks up against the competition. Mediocre investment returns, higher-than-average fees, limited investment options and flexibility--these are some of the things that might have you thinking you could do better with another plan. If you discover that your 529 plan's performance has been subpar, what options do you have?

Roll over funds to a new 529 plan

One option is to do a "same beneficiary rollover" to a different 529 plan. Under federal law, you can roll over the funds in your existing 529 plan to a different 529 plan (college savings plan or prepaid tuition plan) once every 12 months without having to change the beneficiary and without triggering a federal penalty.

Of course, you'll need to research other plans and then choose one, which may take some time. Once you decide on a plan, the rollover process is fairly straightforward. Call your existing 529 plan manager to see what steps are required (some plans may impose a fee for a rollover, so make sure to ask); your new plan should have a system in place to accept rollover funds. You must complete the rollover within 60 days of receiving a distribution to avoid paying a penalty.

If you want to roll over the funds in your 529 college savings plan account more than once in a 12-month period, you'll need to change the beneficiary to another qualifying family member to avoid paying a federal penalty. As a workaround, you can change the beneficiary back to the original person later.

Change your investment strategy in your current 529 plan

Just because you *can* switch to a different 529 plan doesn't necessarily mean you *should.* If the new plan has roughly the same mix of investment choices and similar fees as your current plan, you might ask yourself if you'd be better off staying put and simply changing your current investment allocations. This is especially true if you have invested in your own state's 529 plan and the availability of related state tax breaks depends on you remaining in a state plan.

Section 529 college savings plans generally allow you to change the way your future contributions are invested at any time. So, for example, if you originally picked a more aggressive investment option, you can choose a different one (or more than one) for your future contributions.

However, the rules are stricter when it comes to your existing contributions. If you're unhappy with the performance of your current investment portfolio but don't want to switch plans completely (using the rollover option described earlier), you may have another option. Specifically, 529 college savings plans are federally authorized (but not required) to let you change the investment option for your existing contributions once per calendar year without having to change the beneficiary. (This is different from a plan allowing you to pick a new investment option for your future contributions.) Before joining a 529 plan, check to see if it offers this flexibility for existing contributions.

Other options to consider

Some 529 college savings plan investors may wonder whether they should continue putting money into their accounts if their investment returns have been lackluster, or even in negative territory. Although more 529 plans nowadays are likely to offer more conservative investment options, such as certificates of deposit or money market funds, you still might decide that you'd like to have more control over your college investments. In that case, you might consider a Coverdell education savings account or an UTMA/UGMA custodial account, both of which let you choose your underlying investments.

Finally, keep in mind that any college investment strategy should be reexamined periodically in light of new tax laws and changes in individual circumstances. A financial professional can help you understand your options, compare 529 plans, and select the right investment strategy for your situation.

Note: *Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 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.*

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Do I have the right type of life insurance?

Your need for life insurance changes as your life changes. You may need less life insurance when you're younger, but as you take on more responsibilities and as your family grows, the amount and type of life insurance that fits your circumstances changes.

There are many different types of life insurance. But generally, life insurance policies fall into one of two categories, temporary or term insurance, and permanent or cash value insurance.

Term insurance

Term insurance provides coverage for a specified period ranging from 1 to 30 years. Premiums are typically lower compared to permanent life insurance. If you die during the coverage period, your beneficiary receives a specified death benefit. If you live to the end of the specified period, coverage ends and the policy has no cash value.

Permanent insurance

Unlike term insurance, permanent insurance continues throughout your life as long as you pay the premiums. As with term insurance, permanent insurance pays a death benefit to your beneficiary at your death, but it also contains a cash value account funded by your premium dollars. The cash value portion of the policy grows, tax deferred, as long as the coverage remains in force. With permanent insurance, you can tap the dollars in the policy even while you're alive. You can borrow against the policy, and in some cases, withdraw part of the cash value. Keep in mind, though, that unpaid loans and withdrawals will decrease the death benefit available to your beneficiaries, and reduce the cash value, which may cause the policy to lapse.

What's right for you?

Think about what protection you need and what you can afford before you purchase any type of life insurance. If you really need insurance but don't have the discretionary income, term insurance may be your best choice. On the other hand, if you want lifetime coverage and you're interested in accumulating cash value, then permanent insurance may make more sense.

Should I buy my life insurance through my employer or on my own?

Many companies offer their workers employer-sponsored life insurance coverage as part of their employee benefits package. If you're offered this opportunity, it may be in your best interest to accept. Buying life insurance through your employer can be a relatively inexpensive and hassle-free way to get some of the life insurance coverage you need.

With a group life insurance plan, your employer purchases a single policy that covers all employees. This policy is subject to a single group premium payment. Some employers may pay the entire cost of the group policy (which is tax deductible to the employer). But if the plan requires you to pay a portion of the group premium, that amount will probably be lower than what you would pay for the same type and amount of individual insurance coverage. And you generally don't need to pass a medical exam when applying for group life insurance.

A disadvantage of employer-sponsored life insurance is that it may not be portable. If you leave your job, your group life insurance coverage may end--potentially leaving you underprotected, especially if you can't purchase an individual policy at a reasonable cost because of your age or changes in your health. However, you may be allowed to convert your group insurance to an individual policy, which would allow you to keep your insurance coverage, regardless of your age or health, but you'd have to pay the entire premium out-of-pocket.

Another disadvantage of group life insurance is that the policy may not be tailored to your individual needs. For example, the amount of coverage may be less than what you require to be fully protected. If so, the group policy may give you the option of purchasing more coverage for an additional cost and for which you may be asked to answer medical questions. But even if you end up buying supplemental insurance through a separate company, your employer-sponsored plan gives you a head start in meeting your life insurance needs.

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