To meet your goal for funding a child’s college education, you typically need to develop an investment plan. One of the more important factors is your child’s age:

- **Children age 10 or younger** — With eight or more years until college, you should be able to fund your child’s education by setting aside reasonable sums. Since inflation can have a major impact, consider investments with higher return potential. Your long time frame should give you time to overcome any short-term setbacks while keeping ahead of inflation.

- **Children age 11 to 14** — With four to seven years until college, you may want to select more conservative investments. If you are just starting to save now, you may find the needed amounts quite large. However, start saving so you’ll have some funds accumulated by the time your child enters college.

- **Children age 15 to 18** — At this point, continue switching to more conservative investments as college quickly approaches. If you are just starting to plan for college now, it may be very difficult to save the large sums needed in such a short time. Investigate the financial aid process to see if you’ll qualify for aid and research your borrowing options.

Other items to keep in mind when developing a college investment strategy include:

- **Explain why estate planning is important.** Your role is not to dictate what they should do with their estate, just to emphasize the need for estate planning. When your children encounter major life events, such as marriage, divorce, or a child’s birth, remind them to review their estate plans.

- **Make sure all important estate-planning documents are in place.** At a minimum, every adult should have a will, a durable power of attorney, and a health care proxy. A durable power of attorney designates an individual to control their financial affairs if they become incapacitated, while a health care proxy delegates health care decisions to a third person when they are unable to make them.

- **Coordinate estate planning across generations.** If you have a substantial estate, you may want to coordinate your estate planning efforts with those of your children. A coordinated effort can help minimize estate taxes.
Investment Plan

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✔ Start investing as soon as possible. This can have a huge impact on the amount you need to save on an annual basis. For instance, assume you intend to send your newborn to a public college that currently costs $24,610 per year, the average cost of a public university (Source: Trends in College Pricing, 2016), with expected increases of 3% per year. After 18 years, you would need $168,000 to pay for four years at a public university. If you start saving now, you’ll need to save $4,486 per year to reach that goal in 18 years. Waiting until your child is age five increases your annual savings amount to $7,816 for 13 years. Start saving when your child is 10 and you’ll need to save $15,794 a year for eight years, while the amount grows to $51,750 a year for three years if you wait until your child is age 15. (These figures assume an after-tax rate of return of 8%. This example is for illustrative purposes only and is not intended to project the performance of any specific investment.)

✔ Look for tax-advantaged ways to invest. If your earnings are tax deferred or tax free, you could end up with a much larger balance than if you had to pay taxes on earnings over the years. Take a look at Section 529 plans and Coverdell education savings accounts, both of which allow tax-free distributions as long as the proceeds are used for qualified educational expenses. Investigate these options thoroughly, however, since various qualifications and restrictions apply.

✔ Adjust your investment mix over time. As your child gets closer to college age, start moving investments from more aggressive ones with higher return potential to more conservative ones that will help protect your principal. This can help protect your investments from a major downturn that may occur right before your child enters college.

✔ Review your progress annually. That way, you can make any necessary adjustments. You may decide to change investments or increase the amount you are saving.

Please call if you’d like help with your investment plan for your child’s college education.

401(k) Plans Have Hidden Gems

Tax-deferred contributions and employer matches make 401(k) plans a valuable retirement planning tool, but there are other features most people are unaware of that can make it even more valuable. Check with your 401(k) plan administrator to see what other gems may be hiding in your plan.

Investment Advice — Most people would readily admit that they don’t have the knowledge or skills to manage their own investments, but they do not take advantage of the various advice options that may be available through their 401(k) plan. Almost 40% of plans offer online advice for investment recommendations, but only 6% of plan participants utilize these online advice tools. And while about 25% of plans offer managed account advice and 68% offer professional financial advisor services, only about 10% of participants use them.

Investment Customization — A wide range of investment options are available to provide participants with choices based on their investment risk tolerance. On average, 401(k) plans offered 18 different funds in 2016, yet half of plan participants contribute to only one fund.

Changing Investments — While investment selections can be changed in your 401(k) at any time, only 9% of plan participants actual-
Should You Consider Incentive Trusts?

You’re looking for an effective way to get your heirs to do what you think is best for them, for the family, and for the world. Is an incentive trust the right vehicle to accomplish that?

An incentive trust is much like a traditional irrevocable trust, except it sets specific conditions on trust distributions. Some people establish incentive trusts to make sure beneficiaries stay in the family business. Others want to encourage higher education or public service. Some want to discourage behavior — laziness, reckless spending, or drug use. Still others want to encourage beneficiaries to get married and raise a family.

Incentive Trusts Have Advantages and Disadvantages

The advantages of incentive trusts include:

- If you write the conditions for disbursement properly, they provide objective criteria for when and how to make those disbursements.
- They encourage beneficiaries to behave in ways that are important to you.
- They allow you to condition disbursement on your beneficiary’s age, so you can decide when he/she is old enough to responsibly manage the inheritance.
- They can help you accomplish goals through your beneficiaries, such as continuing the family business or pursuing philanthropic interests.

But there are also disadvantages:

- While incentive trusts allow you to specify conditions for distributions, they restrict the ability of trustees to make different decisions if new circumstances arise.
- Incentive trusts can cause resentment among beneficiaries who may feel it is not your place to tell them how to live their lives.
- Encouraging goals you think are important may cause beneficiaries to neglect other good opportunities. For example, you may want a beneficiary to start a business, but she may be better suited to another career choice.
- Incentive trusts may be plagued by the law of unintended consequences. How can you foresee the future long after you’ve died? You may instruct the trust to pay out a stipend for your beneficiaries to go to school, but that can encourage them to become professional students.
- Because incentive trusts are often more complicated than traditional irrevocable trusts, they may be more expensive to establish and maintain.

What to Think About

There are a number of issues that could affect the design and implementation of an incentive trust. Consider these points carefully:

- **Goals** — What behaviors do you want to promote? Incentive trusts are often created to encourage beneficiaries to pursue higher-education degrees. Discouraging reckless consumption and unproductive behavior are other common reasons behind incentive trusts. Think about what matters to you and your beneficiaries. What goals are fair and reasonable for you to expect your beneficiaries to achieve?
- **Coordination with your estate plan** — Incentive trusts are just one component of an estate plan. Decide whether you want to create a separate incentive trust or build incentive clauses into a trust designed for another purpose. Make sure the incentive trust doesn’t conflict with or detract from other components of your estate plan.
- **Duration** — How long do you want the incentive trust to last? For grantors with substantial wealth, a trust may span many generations. Can you realistically set expectations for beneficiaries who aren’t even born yet?
- **Beneficiaries** — Who will benefit from the monies disbursed from the incentive trust? Considerations here are similar to those for any kind of trust: who do you include and exclude?
- **Trustee designation** — The trustee of an incentive trust typically has a more difficult job than the trustee of a simple traditional trust, since he/she must decide when beneficiaries have met the conditions you specified. Make that job easier by writing conditions that are objective and easily measured.
High Exclusion Limits and Trusts

Now that the federal estate-tax exemption is $5.49 million for individuals in 2017, it’s estimated that 99% of all estates can pass to heirs free of federal estate taxes without the use of trusts. But the value of many kinds of trusts lies in sheltering you from other kinds of taxes and helping you control how your assets are distributed:

Income and capital gains tax advantages. While shielding your heirs from estate taxes is the principal benefit of trusts, charitable trusts can also reduce your income and capital gains tax liability. Trusts can also help you or your heirs avoid being subject to capital gains taxes on the sale of highly appreciated assets.

Who gets what and when? Some trusts are designed chiefly to give you control over who receives what portion of your assets after you die. For example, a Qualified Terminal Interest Trust (QTIP) is useful for people who have children from a first marriage and step-children from a subsequent marriage. The owner of a QTIP can provide for the income needs of the second spouse for as long as he/she lives and then transfer trust assets on his/her death to his/her children.

Spending for specific purposes or at specific ages. Do you want your children to be supported after you die, but want them to only spend the money for their educations? Do you want them to have limited access to the funds until they’re 30 or in five-year intervals? Various trusts can help accomplish these objectives.