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INSIDE THIS ISSUE:

Points of interest:

- Children born now could face college bills in excess of $500,000
- 529 plans are the most flexible of all college savings ideas
- A couple can gift up to $140,000 up front to help get a plan funded
- State tax deductions can help pay for some of the costs

529 Plans are the Gold Standard for Trying to Satisfy High College Costs

Helping a college student afford an education is one of the most satisfying gifts a grandparent can make.

Nothing seems to be stemming the rise in college costs, which is occurring alongside a growing body of research about the importance of a college education. Studies confirm that a bachelor's degree helps improve employability, earning power, job satisfaction, and more.

In 2012, median annual earnings of a millennial with a bachelor's degree working full time was about $45,500 versus $30,000 for those with a two-year degree or only some college.

Costs keep escalating

For a child born in 2013, the cost to attend four years of public university—based on extrapolations using recent annualized college-cost inflation—will be around $229,000; four years of private university are expected to cost more than $510,000. (College Board, 2013)

The Gold Standard

Though there are a multitude of strategies to address increasing costs, the benefit profile of 529 plans makes them an attractive option, particularly for tax-sensitive, higher-net-worth investors with ambitious savings goals, estate planning objectives, and a desire to allocate money specifically for higher education.

Here are some of the benefits and features of 529 plans:

High contribution limits. Many plans allow contributions until the account value reaches as much as $400,000.

Beneficiary flexibility. You can change beneficiaries as often as you wish, and there are no tax consequences when the new beneficiary is a member of the previous beneficiary's family.

Financial aid treatment. There is no single answer to the question of how 529 plan assets affect financial aid calculations. Assets that are considered the property of the account owner (most often the parents) rather than the beneficiary may be treated more favorably than assets in some other savings strategies.

Lack of income restrictions. Anyone can open a 529 account regardless of how much money they make.

Tax-free growth. Earnings and distributions are tax-free provided they go toward qualified higher-education expenses of the beneficiary.

State tax deductions. Many states allow a tax deduction or credit for investments made to a 529 plan. And while often the benefit is available only to investors who use their home state's plan, an increasing number of states allow a benefit for contributions to any state's 529 plan.

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529 Plans set the Bar High

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The one benefit that sets 529 plans apart

In addition to intrinsic benefits such as flexibility, tax-free growth, and high contribution limits, the estate-planning potential of 529 plans is unique. That's because, for estate planning purposes, 529 plan contributions are considered completed gifts yet they allow the contributor to retain control of how the assets are invested as well as when, and in what amount, they're withdrawn.

Consider that those looking to transfer sizable sums out of their estates can use an accelerated funding provision to give as much as $70,000 ($140,000 per couple) at one time by combining up to five years of gifts into a single contribution without incurring gift-tax consequences. And the number of beneficiaries they can contribute to is unlimited.

Thus, grandparents seeking to transfer money out of their estate and make a huge contribution to their seven grandchildren's higher education savings goals could contribute nearly $1 million.

Furthermore, if the contributor is allocating assets specifically for higher education, 529 plans are the only option that allows one to "take back" the gifted assets if the beneficiary chooses not to attend college. (If 529 assets are taken back, however, earnings become taxable and there is a 10% tax penalty on profits).

College experience often leads to success.

This combination of benefits makes a strong case for using a 529 college savings plan as the centerpiece of a higher-education savings strategy.

Investors still pay huge spreads for Municipal Bonds

According to a study for the Wall Street Journal, retail investors are paying about twice as much in commissions for buying municipal bonds as they are for corporate bonds.

Municipal bonds are issued by states, cities and other local government agencies to provide capital for public projects, like roads, utility plants, schools, hospitals, etc. The Federal Income Tax-free nature of municipal bonds traditionally attracts individual investors who rely upon their steady income stream.

Clouds have broken

For many years, the municipal bond market was a cloudy place, where unscrupulous dealers would mark up the price of bonds without the threat of the amounts of their commissions being disclosed. That has all changed-trading information is available for these types of bonds very soon after the trades are executed.

Brokers of stocks and corporate bonds must disclose market pricing and give individuals "best execution" of trades, ensuring they receive the best prices available.

Those rules do not apply to the Municipal bond industry. Brokers claim that municipal bonds cost more to trade because there are hundreds of thousands of issues that trade infrequently and in smaller amounts than other securities.

Spreads can be 1.5-2%

The Wall Street Journal study found that the "spread", or the broker's commission municipal buyers pay, can be double the amount than corporate bonds. Retail investors can expect to pay 1.5-2% of the value of a municipal bond in "spreads".

Individual investors have little recourse other than shopping around for good prices. Hester Peirce, a former SEC staff attorney, now research fellow at George Mason University says oversight coordination has been poor at times because the municipal market is supervised by three regulators and the issue has had a low priority in Washington.

Investors love tax free municipal bonds. But be careful when you buy.

One of the regulators, the Municipal Securities Rulemaking Board (MSRB) has proposed a municipal bond best execution rule and is working on a digital pricing platform.

Clients of fiduciary, fee-only registered investment advisory firms shouldn't worry-the firms cannot buy bonds to resell, with a spread, to, or for, their clients like brokerage firms do.

"Retail investors can expect to pay 1.5-2% of the value of a municipal bond in "spreads".."

Is Playing the Stock market Like Gambling?

Investing in the stock market is one of the most common ways savers can build wealth. For some, however, it can also be financially and psychologically destructive.

Obsessive stock pickers share many of the same traits as problem gamblers, but the notion that stock market gambling is the most accepted form of gambling hides the problem, according to people who have studied the matter.

Keith Whyte, Executive Director of the National Council on Problem Gambling, said people who have let stock picking and gambling spiral into a disease are seeking the same thing-a continuous jolt they are loath to give up.

Abstinence is essential

For those with a stock market problem, the self-help group Gamblers Anonymous says total abstinence is essential. "Turning over control of...investments to a spouse, relative or professional financial planner is an important step towards recovery", the group writes. "The more distance there is between the investments and the compulsive gambler, the stronger the recovery will be."

San Francisco clinical psychologist Paul Good developed 11 warning signs that may reveal whether an investor is actually a gambler in disguise. Anyone who exhibits five or more of these signs may have a gambling problem:

• High volume trading-the "action" has become more compelling than investing.
• Preoccupation with one's investments ·in the form obsessive study
• Needing to increase the investment or "bet" to get excited-using leverage, options or borrowing on margin to "invest"
• Repeated unsuccessful efforts to stop or control market activity
• Restlessness or irritability when trying to stop or if cash builds up in the trading account
• Involvement in market activity to escape one's other problems
• After taking losses in the market, continuing to take positions, or increasing a position as a way to break even (doubling down)
• Lying to family members and friends to conceal the extent of involvement in the market
• Committing illegal acts such as forgery, fraud, theft or embezzlement to finance market activity

The thrill of winning at gambling can infect stock market investors

• Jeopardizing significant relationships, one's job, or educational or career opportunities because of excessive involvement in the market
• Relying, on others to provide money to relieve a desperate financial situation caused by gambling in the markets.

Dr. Carlo Blanco, a psychiatrist who heads up the Gambling Disorders Clinic at Columbia University which sees a lot of Wall Street patients, says one difference between obsessive investors and chronic gamblers is their ages. Pathological gamblers are typically in their late teens and 20s while stock market players are more likely to be in their 30s and 40s.

“"Turning over control of…investments to a spouse, relative or professional financial planner is an important step towards recovery”

Discussing Finances, Junk bonds and more

A recent survey of 1,125 clients of a high-end financial advisory firm found that 61 percent ranked personal finance as the most difficult subject to discuss with family, friends, and colleagues. Money was way ahead of politics (14 percent), sex, (11), religion (8) and health issues (6 percent).

Nigel Green, founder and CEO of deVere Group says, "Ignoring or putting off tackling any personal finance issue is always the worst way to handle such things... creating far bigger challenges in the future..."

Junk Bond Record

French cable operator Numericable Group SA recently raised about $11 Billion in the largest junk bond sale every recorded. The company's 5 to 10 year bonds fetched interest rates of only 4.875%-6.25% from buyers hungry for any yield on debt instruments.

Junk bonds are issues from below investment grade companies, and have more risk of default or non-payment, generally, than investment grade companies. Global issuance of junk bonds this year to date is the second highest ever.

Not that cost matters

According to Gallup, the average daily spending for US adults with children under age 18 was $109. For those without children it is $79.

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Cash Reserves-How Much?

Ready cash needs to be ready!

In times of crisis, you don't want to be shaking pennies out of a piggy bank. Having a financial safety net in place can ensure that you're protected when a financial emergency arises. One way to accomplish this is by setting up a pool of readily available funds that can help you meet emergency or highly urgent short-term needs or opportunities.

Three to six months

Most financial professionals suggest that you have three to six months' worth of living expenses in your cash reserve. You can modify this up or down depending on your circumstances. Do you have a mortgage? Do you have short-term and long-term disability insurance? If so, what is the waiting, or elimination period? What are your monthly debt obligations? What is your job security, health, and income?

Building your cash reserve

If you haven't established a cash reserve, or if the one you have is inadequate, you can take several steps to eliminate the shortfall:

- Save aggressively: budget your savings as part of regular household expenses
- Reduce your discretionary spending (e.g., eating out, movies, lottery tickets)
- Convert current or liquid assets (those that are cash or are convertible to cash within a year)

Your home equity credit line can be a secondary source of funds in a time of crisis. Borrowed money, however, has to be paid back, so, you shouldn't consider lenders as a primary source for your cash reserve.

Where to keep your cash

Keep it in the most convenient place! In an emergency, you'll want speedy access to your money. So, your regular bank or brokerage account (provided it offers checking or debit card services) are the best places to start.

Review your reserves

If you are a really good record keeper, you know your annual living expenses, so you can check your needs once a year. If not, remember, your personal and financial circumstances change often--a new child comes along, an aging parent becomes more dependent, or a larger home bumps expenses.