



## Preferred Planning Concepts, LLC

Ken Lydecker  
Dave Nicholson  
Todd Gilchrist  
2800 S. River Rd., Ste. 240  
Des Plaines, IL 60018  
T: 847.375.0505  
[therese@ppcplanning.com](mailto:therese@ppcplanning.com)  
[www.PPCPlanning.com](http://www.PPCPlanning.com)

### October 2015

New Feature! Security Update  
2015 Year-End Tax Planning Basics

Frequently Asked Questions on Opening a 529 Plan Account

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

# PPC Monthly Newsletter

## New Feature! Security Update

*"Security" is a word we frequently use in discussing retirement planning with our clients. But it has other meanings. In the high-tech, cyberspace world we live in, it is ever critical to make sure that the manner in which you share personal information and store vital financial data is protected as much as possible from the ever-lurking "hackers."*

*Since keeping our clients' data secure is something PPC and our industry takes extremely seriously, we wanted to provide you with some valuable insights offered by our computer security specialist, Bill Zdeb.*

### - Ken, Dave, Todd, Therese and Maja

#### Identity Theft Protection Tips

*Submitted by William Zdeb, CCBEH™*

- Consumer awareness and education is the first line of defense in protecting your own identity.
- Do not reveal any personal information online, unless you've verified the source.
- Be suspicious of any phone caller asking you to provide personal information such as account numbers, social security numbers, birth date, etc. Directly contact the company or credit card provider from a phone number on your statement to check the validity of the request.
- Financial companies will never ask you to verify any personal information by email. Most emails sent are not secure and encrypted by default.
- Check your accounts often. If something seems unusual, notify the company immediately.

- Passwords should be strong and changed if you suspect a problem. Security experts advise a combination of letters, numbers and special characters (ie: @\$\$!).

- Update or patch your operating system, personal anti-virus and internet security software regularly.

- Install an Anti-Spyware program on your computer and update it regularly.

- Always sign off properly. Close the browser window or follow the website's prompts.

- Check your credit report at least annually. You are entitled to one free credit report annually from each of the three major credit bureaus. Check one of the credit bureaus on a four-month rotation.

- Be wary of skimming at ATM machines. If an ATM machine looks like a device has been appended to it, then it might be a skimming device. Try and use ATMs in well-lighted, secure or monitored areas.

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***Bill, Vice President of Information Security at a local community bank, has been working in the Financial Sector for over 28 years. He develops and implements security measures to protect an organization's network, cyber security and information technology infrastructure. Focusing not only on the internal aspect of the infrastructure, Bill provides insight into prevention, detection, response times and forensics. Much of his time is devoted to security education in the workplace, which he considers the most important line of security defense.***

# 2015 Year-End Tax Planning Basics



## AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home; and the exercise of incentive stock options.

## Required minimum distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

As the end of the 2015 tax year approaches, set aside some time to evaluate your situation and consider potential opportunities. Effective year-end planning depends on a good understanding of both your current circumstances and how those circumstances might change next year.

## Basic strategies

Consider whether there's an opportunity to defer income to 2016. For example, you might be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. When you defer income to 2016, you postpone payment of the tax on that income. And if there's a chance that you might be paying taxes at a lower rate next year (for example, if you know that you'll have less taxable income next year), deferring income might mean paying less tax on the deferred income.

You should also look for potential ways to accelerate 2016 deductions into the 2015 tax year. If you typically itemize deductions on Schedule A of Form 1040, you might be able to accelerate some deductible expenses--such as medical expenses, qualifying interest, or state and local taxes--by making payments before the end of the current year, instead of paying them in early 2016. Or you might consider making next year's charitable contribution this year instead. If you think you'll be itemizing deductions in one year but claiming the standard deduction in the other, trying to defer (or accelerate) Schedule A deductions into the year for which you'll be itemizing deductions might let you take advantage of deductions that would otherwise be lost.

Depending on your circumstances, you might also consider taking the opposite approach. For example, if you think that you'll be paying taxes at a higher rate next year (maybe as the result of a recent compensation increase or the planned sale of assets), you might want to look for ways to accelerate income into 2015 and possibly defer deductions until 2016 (when they could potentially be more valuable).

## Complicating factors

First, you need to factor in the alternative minimum tax (AMT). The AMT is essentially a separate, parallel federal income tax system with its own rates and rules. If you're subject to the AMT, traditional year-end strategies may be ineffective or actually have negative consequences--that's because the AMT effectively disallows a number of itemized deductions. So if you're subject to the AMT in 2015, prepaying 2016 state and local taxes

probably won't help your 2015 tax situation, and, in fact, could hurt your 2016 bottom line.

It's also important to recognize that personal and dependency exemptions may be phased out and itemized deductions may be limited once your adjusted gross income (AGI) reaches a certain level. This is especially important to factor in if your AGI is approaching the threshold limit and you're evaluating whether to accelerate or defer income or itemized deductions. For 2015, the AGI threshold is \$258,250 if you file as single, \$309,900 if married filing jointly, \$154,950 if married filing separately, and \$284,050 if head of household.

## IRA and retirement plan contributions

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2015 taxable income. (Note: A number of factors determine whether you're eligible to deduct contributions to a traditional IRA.) Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars--so there's no immediate tax savings--but qualified distributions are completely free of federal income tax.

For 2015, you're generally able to contribute up to \$18,000 to a 401(k) plan (\$24,000 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2015 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2015 IRA contributions.

## Important notes

The Supreme Court has legalized same-sex marriage nationwide, significantly simplifying the federal and state income tax filing requirements for same-sex married couples living in states that did not previously recognize their marriage.

A host of popular tax provisions (commonly referred to as "tax extenders") expired at the end of 2014. Although it is possible that some or all of these provisions will be retroactively extended, currently they are not available for the 2015 tax year. Among the provisions: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.



### **529 plan assets surpass \$230 billion**

Assets in 529 college savings plans reached \$231.9 billion in the first quarter of 2015, a 10.1% increase over the first quarter of 2014. (Source: Strategic Insight, 2015)

**Note:** Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated.

## **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.

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Ken Lydecker  
Dave Nicholson  
Todd Gilchrist  
2800 S. River Rd., Ste. 240  
Des Plaines, IL 60018  
T: 847.375.0505  
therese@ppcplanning.com  
www.PPCPlanning.com

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

- 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.

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



## How do I compare my health insurance options during open enrollment?

The decisions you make during open enrollment season regarding health insurance are especially

important, since you generally must stick with the options you choose until the next open enrollment season, unless you experience a "qualifying" event such as marriage or the birth of a child. As a result, you should take the time to carefully review the types of plans offered by your employer and consider all the costs associated with each plan.

With most health insurance plans, your employer will pay a portion of the premium and require you to pay the remainder through payroll deductions. When comparing different plans, keep in mind that even though a plan with a lower premium may seem like the most attractive option, it could have higher potential out-of-pocket costs.

You'll want to review the copayments, deductibles, and coinsurance associated with each plan. This is an important step because these costs can greatly affect what you end up paying out-of-pocket. When reviewing the costs of each plan, consider the following:

- Does the plan have an individual or family deductible? If so, what is the amount that will have to be satisfied before your insurance coverage kicks in?
- Are there copayments? If so what amounts are charged for doctor visits, specialists, hospital visits, and prescription drugs?
- Will you have to pay any coinsurance once you've satisfied the deductible?

You should also assess each plan's coverage and specific features. For example, are there coverage exclusions or limitations that apply? Which expenses are fully or partially covered? Do you have the option to go to doctors who are outside your plan's provider network? Does the plan offer additional types of coverage for vision, dental, or prescription drugs?

In the end, when reviewing your options, you'll want to balance the coverage and features offered under each plan against the plan's overall cost to determine which plan offers you the best value for your money.



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