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Financial Planning Strategies

A Financial Planning Update

From the Desk of:
Tate Christopher
Investment Advisor Representative

FOOTHILL SECURITIES INCORPORATED
Investing in your Future Since 1962™

2631 Nichols Canyon Road
Los Angeles, CA 90046
(800) 318-6050
tchristopher@foothillsecurities.net
CA Insurance Lic. # 0B19335

Estimating Future College Costs

For many people, a child's college education is the second most expensive purchase (after that of a home) they will ever make. For parents and grandparents who wish to estimate the cost of a college education, the following information can help provide you with an educated guess.

According to The College Board's *Trends in College Pricing 2011*, the average annual cost of in-state tuition, fees, room, and board at a four-year public institution is $17,131 for the academic year 2011–2012. For a private institution, the average cost of tuition, fees, room, and board is $38,589. Public colleges and universities experienced an increase of 6% from the prior year, 2010–2011, and private colleges and universities experienced an increase of almost 4.5%.

If the cost of a college education increases by 6% annually, and your child enters a private college in the 2020–2021 academic year, the estimated tuition will be $71,456. Based on these projections, a four-year education would cost approximately $285,000. For young families, skyrocketing cost projections can lead to sticker shock, but there are strategies that can help you keep pace with tuition hikes. The College Board

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Is the Roth 401(k) an Option for You?

Since it first became available in 2006, many employers have added the Roth 401(k) to their benefit packages as a retirement savings option. A Roth option is available for Individual Retirement Accounts (IRAs) and 401(k) and 403(b) accounts. To see if a Roth 401(k) would be appropriate for your situation, let's take a closer look.

To Roth or Not To Roth

To start, let's consider the advantages and disadvantages of both types of 401(k)s. With a traditional 401(k), you make contributions on a pre-tax basis, which lowers your current income subject to taxation, and earnings in the account have the potential to grow tax deferred. However, your distributions in retirement are subject to ordinary income tax. On the other hand, your contributions to a Roth 401(k) are made with after-tax dollars, but potential earnings and distributions are tax free, as long as you have held the account for

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Your Credit Report and Identity Theft Protection

Identity theft is a serious crime against the American consumer, with as many as 9 million individuals affected annually, according to the Federal Trade Commission (FTC, 2011). The FTC and other consumer credit organizations suggest a proactive approach to safeguarding your identity: checking your **credit reports** annually.

A credit report records information about your bills and loan and repayment history, available credit, and outstanding debts, and is typically used by lenders when deciding to accept a loan or credit application. In addition, credit reports can alert you to accounts that have been fraudulently opened in your name, unauthorized charges made to your existing accounts, and other crimes committed by someone using your personal information.

According to the **Fair Credit Reporting Act (FCRA)**, you can request a free copy of your credit reports from each of the three major credit bureaus (Equifax, Experian, and TransUnion) once a year. You can access all three agencies through a single website, www.annualcreditreport.com. The FTC suggests that you order all three reports, even if you choose to stagger your report requests throughout the year, as the information may differ from each bureau. Credit reporting is voluntary, and therefore creditors may subscribe and report information to just one agency, or all three.

Usually, a credit report is divided into four major sections: identifying information, credit history, public records, and inquiries. The **identifying information** on your report will include your name, current (and previous) address, Social Security number, driver's license number, telephone number, birth date, current and previous employers, and your spouse's name.

The **credit history** section details your payment history with banks, retail stores, finance companies, mortgage companies, and others who have given you credit. Each account, sometimes called a trade line, will appear with the following information: name of creditor, account number, type of credit (installment loan or revolving credit), account participation (joint owner, individual account, or authorized user), date opened, last activity (date of last payment or charge), high credit (the credit limit or original loan amount), terms (number of installments or amount of monthly payments), balance at the time of reporting, past due balance at the time of reporting, status of the account (open, closed, inactive, etc.), and date of last report. It is in this section that accounts opened or affected by identity thieves may become apparent.

The **public records** section includes documents that reflect your history of meeting financial obligations, such as bankruptcies, collection accounts, judgments, and tax liens. Since public records can have a serious, negative effect on your credit, verify that the information belongs to you, not someone who used your personal information.

Finally, the **inquiry** section lists all the businesses that have received your credit report during the last 24 months. Inquiries are categorized as hard or soft. Hard inquires are those you initiate by filing a credit or loan application. Soft inquiries often come from marketers who want to sell you something. If you do not recognize a listed business, be sure to find out the nature of the business and why they are looking at your credit report.

If you find a mistake, immediately contact the credit bureau that issued the report using the form provided or by following that particular agency's instructions. If the error is serious, and you suspect that your identity has been stolen, contact the FTC's Identity Theft Hotline at 1-877-IDTHEFT (877-438-4338). Be sure to keep detailed documentation of all communications with creditors, agencies, and the FTC.

You can help safeguard your identity by continually monitoring your credit reports. For more information about identity theft, visit the FTC's website at www.ftc.gov.

Is the Roth 401(k) an Option for You?

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at least five years and are at least 59½ years old. So, is it better to pay taxes on your retirement funds now or later? The most appropriate choice for you depends on your current tax situation and your long-term financial goals.

It is important to keep in mind that the 401(k) annual deferral limits—$17,000 for taxpayers under age 50 and $22,500 for those age 50 and older in 2012—apply to all 401(k) contributions, regardless of whether they are made on a pre-tax or after-tax basis. If you contribute to a Roth 401(k), you may have to reduce or discontinue contributions to your employer's traditional 401(k) plan to avoid exceeding these limits. However, you may contribute to both types of 401(k) plans.

Under the Small Business Jobs Act of 2010, participants in traditional 401(k), 403(b), and 457(b) plans are now permitted to roll over funds into Roth accounts within their plans, if applicable. Because contributions to traditional 401(k)s are made on a pre-tax basis, any funds transferred from traditional to Roth 401(k) accounts are taxed in the year of conversion.

Here's another point to consider. Matching contributions made by employers must be invested in a traditional 401(k), not a Roth account. So, even if you make contributions exclusively to a Roth 401(k) account, you may still owe tax on withdrawals from pre-tax funds contributed by your employer to the traditional 401(k) account.

What about the Roth IRA?

The Roth 401(k) is only available through an employer-sponsored plan, whereas the Roth IRA is available to all taxpayers (with income limitations). How do the two Roth options compare? First, you can save more money in a Roth 401(k) than in a Roth IRA. The 2012 annual contribution limits for IRAs are set at $5,000 for taxpayers under age 50 and $6,000 for those age 50 and older. On the other hand, the Roth 401(k) is subject to the more generous elective salary deferral limits that apply to conventional 401(k)s—$17,000 or $22,500 for those age 50 and older in 2012.

Further, the Roth IRA is subject to adjusted gross income (AGI) limits; only those with AGIs below $110,000 for single filers and $173,000 for married joint filers are eligible to contribute up to the maximum after-tax dollars to a Roth IRA in 2012. These income limits do not apply to Roth 401(k)s.

In addition, contributions to a Roth 401(k) can be made through payroll deductions, which can put retirement saving on autopilot. To participate, an employee who is currently contributing to a traditional 401(k) plan could, for example, opt to have his or her contributions diverted to a Roth version of the same plan. Unlike the Roth IRA, however, you must begin taking required minimum distributions from a Roth 401(k) after age 70½.

If you are interested in contributing to a Roth 401(k), ask your company's benefit administrator if this option is available for your retirement plan. If not, expressing interest in the Roth 401(k) may prompt your employer to adopt the option. $

Estimating Future College Costs

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reports that almost 75% of undergraduate students receive some type of financial aid. In addition, the Federal government offers tax breaks for education savings, as well as other credits and deductions for taxpayers currently facing college tuition costs.

Use the table below to estimate the approximate annual cost of tuition over the next decade, as well as room and board, for a four-year undergraduate education based on the year a child will enter college, the inflation forecast, and the choice of a public or private institution.

How Much Do You Need to Save?

Many parents may feel overwhelmed by the daunting task of planning for education funding, or think that saving the required amount of money will severely compromise their current lifestyle. While these are legitimate concerns, they need not stop you from establishing and maintaining a disciplined college savings plan. Whether you are considering a public or private college education for your child, the key to effective planning is to begin saving as early, and as much, as possible. $

Projected Higher Education Costs

	Public Colleges & Universities			Private Colleges & Universities		
School Year	3% Inflation	6% Inflation	10% Inflation	3% Inflation	6% Inflation	10% Inflation
12–13	17,658	19,314	21,760	40,472	44,269	49,873
13–14	18,195	20,506	24,038	41,703	46,999	55,096
14–15	18,748	21,770	26,555	42,972	49,898	60,865
15–16	19,319	23,113	29,336	44,279	52,976	67,238
16–17	19,906	24,539	32,408	45,625	56,243	74,279
17–18	20,512	26,052	35,801	47,013	59,712	82,057
18–19	21,136	27,659	39,550	48,443	63,395	90,649
19–20	21,778	29,365	43,692	49,917	67,305	100,141
20–21	22,441	31,176	48,267	51,435	71,456	110,628

Figures are estimated projections based on the average cost of tuition at public and private universities for the 2011–2012 academic year.

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