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Life Insurance Options After Retirement
Q&As on Roth 401(k)s
Finding and Claiming Forgotten Funds
How many types of government savings bonds are there, and what's the difference between them?



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LIFE THE WAY YOU PLANNED IT.

Life Insurance Options After Retirement

Life insurance can serve many valuable purposes during your life. However, once you've retired, you may no longer feel the need to keep your life insurance, or the cost of maintaining the policy may have become too expensive. In these cases, you might be tempted to abandon the policy or surrender your life insurance coverage. But there are other alternatives to consider as well.

Lapse or surrender

If you have term life insurance, you generally will receive nothing in return if you surrender the policy or let it lapse by not paying premiums. On the other hand, if you own permanent life insurance, the policy may have a cash surrender value (CSV), which you can receive upon surrendering the insurance. If you surrender your cash value life insurance policy, any gain (generally, the excess of your CSV over the cumulative amount of premium paid) resulting from the surrender will be subject to federal (and possibly state) income tax. Also, surrendering your policy prematurely may result in surrender charges, which can reduce your CSV.

Exchange the old policy

Another option is to exchange your existing life insurance policy for either a new life insurance policy or another type of insurance product. The federal tax code allows you to exchange one life insurance policy for another life insurance policy, an endowment policy, an annuity, or a qualified long-term care policy without triggering current tax liability. This is known as an IRC Section 1035 exchange. You must follow IRS rules when making the exchange, particularly the requirement that the exchange must be made directly between the insurance company that issued the old policy and the company issuing the new policy or contract. Also, the rules governing 1035 exchanges are complex, and you may incur surrender charges from your current life insurance policy. In addition, you may be subject to new sales, mortality, expense, and surrender charges for the new policy, which can be very substantial and may last for many years afterward.

Lower the premium

If the premium cost of your current life insurance policy is an issue, you may be able to reduce the death benefit, lowering the premium cost in the process. Or you can try to exchange your current policy for a policy with a lower premium cost. But you may not qualify for a new policy because of your age, health problems, or other reasons.

Stream of income

You may be able to exchange the CSV of a permanent life insurance policy for an immediate annuity, which can provide a stream of income for a predetermined period of time or for the rest of your life. Each annuity payment will be apportioned between taxable gain and nontaxable return of capital. You should be aware that by exchanging the CSV for an annuity, you will be giving up the death benefit, and annuity contracts generally have fees and expenses, limitations, exclusions, and termination provisions. Also, any annuity guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company.

Long-term care

Another potential option is to exchange your life insurance policy for a tax-qualified long-term care insurance (LTCI) policy, provided that the exchange meets IRC Section 1035 requirements. Any taxable gain in the CSV is deferred in the long-term care policy, and benefits paid from the tax-qualified LTCI policy are received tax free. But you may not be able to find a LTCI policy that accepts lump-sum premium payments, in which case you'd have to make several partial exchanges from the CSV of your existing life insurance policy to the long-term care policy provider to cover the annual premium cost.

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.

Q&As on Roth 401(k)s



Which is the better option, pretax or Roth contributions?

The answer depends upon your personal situation. If you think you'll be in a similar or higher tax bracket when you retire, Roth 401(k) contributions may be more appealing, since you'll effectively lock in today's lower tax rates. However, if you think you'll be in a lower tax bracket when you retire, pretax 401(k) contributions may be more appropriate. Your investment horizon and projected investment results are also important factors.

The Roth 401(k) is 10 years old! With 62% of employers now offering this option, it's more likely than not that you can make Roth contributions to your 401(k) plan.¹ Are you taking advantage of this opportunity?

What is a Roth 401(k) plan?

A Roth 401(k) plan is simply a traditional 401(k) plan that permits contributions to a designated Roth account within the plan. Roth 401(k) contributions are made on an after-tax basis, just like Roth IRA contributions. This means there's no up-front tax benefit, but if certain conditions are met both your contributions and any accumulated investment earnings on those contributions are free of federal income tax when distributed from the plan.

Who can contribute?

Anyone! If you're eligible to participate in a 401(k) plan with a Roth option, you can make Roth 401(k) contributions. Although you cannot contribute to a Roth IRA if you earn more than a specific dollar amount, there are no such income limits for a Roth 401(k).

Are distributions really tax free?

Because your contributions are made on an after-tax basis, they're always free of federal income tax when distributed from the plan. But any investment earnings on your Roth contributions are tax free only if you meet the requirements for a "qualified distribution."

In general, a distribution is qualified if:

- It's made after the end of a five-year holding period, *and*
- The payment is made after you turn 59½, become disabled, or die

The five-year holding period starts with the year you make your first Roth contribution to your employer's 401(k) plan. For example, if you make your first Roth contribution to the plan in December 2016, then the first year of your five-year holding period is 2016, and your waiting period ends on December 31, 2020. Special rules apply if you transfer your Roth dollars over to a new employer's 401(k) plan.

If your distribution isn't qualified (for example, you make a hardship withdrawal from your Roth account before age 59½), the portion of your distribution that represents investment earnings will be taxable and subject to a 10% early distribution penalty, unless an exception applies. (State tax rules may be different.)

How much can I contribute?

There's an overall cap on your combined pretax and Roth 401(k) contributions. In 2016, you can contribute up to \$18,000 (\$24,000 if you are

age 50 or older) to a 401(k) plan. You can split your contribution between Roth and pretax contributions any way you wish. For example, you can make \$10,000 of Roth contributions and \$8,000 of pretax contributions. It's totally up to you.

Can I still contribute to a Roth IRA?

Yes. Your participation in a Roth 401(k) plan has no impact on your ability to contribute to a Roth IRA. You can contribute to both if you wish (assuming you meet the Roth IRA income limits).

What about employer contributions?

While employers don't have to contribute to 401(k) plans, many will match all or part of your contributions. Your employer can match your Roth contributions, your pretax contributions, or both. But your employer's contributions are always made on a pretax basis, even if they match your Roth contributions. In other words, your employer's contributions, and any investment earnings on those contributions, will be taxed when you receive a distribution of those dollars from the plan.

Can I convert my existing traditional 401(k) balance to my Roth account?

Yes! If your plan permits, you can convert any portion of your 401(k) plan account (your pretax contributions, vested employer contributions, and investment earnings) to your Roth account. The amount you convert is subject to federal income tax in the year of the conversion (except for any after-tax contributions you've made), but qualified distributions from your Roth account will be entirely income tax free. The 10% early-distribution penalty generally doesn't apply to amounts you convert.²

What else do I need to know?

Like pretax 401(k) contributions, your Roth contributions can be distributed only after you terminate employment, reach age 59½, incur a hardship, become disabled, or die. Also, unlike Roth IRAs, you must generally begin taking distributions from a Roth 401(k) plan after you reach age 70½ (or, in some cases, after you retire). But this isn't as significant as it might seem, because you can generally roll over your Roth 401(k) money to a Roth IRA if you don't need or want the lifetime distributions.

¹ Plan Sponsor Council of America, *58th Annual Survey of Profit Sharing and 401(k) Plans* (2015) (Reflecting 2014 Plan Experience)

² The 10% penalty tax may be reclaimed by the IRS if you take a nonqualified distribution from your Roth account within five years of the conversion.





Do you have a tax refund waiting for you?

Each year, millions of dollars in tax refunds go unclaimed. In March 2016, the IRS announced that it was holding \$950 million in unclaimed refunds as a result of taxpayers failing to file a federal income tax return for 2012. (Source: IR-2016-38, March 10, 2016)

You may have missed out on a potential tax refund because you earned income and had taxes withheld but weren't required to file a tax return, or if you were eligible for refundable tax credits (where the amount of the credit you qualify for exceeds the amount of tax you owe). Even if you did file a tax return, your refund may have been undeliverable if your address was incorrect.

For more information on finding and claiming missing federal income tax refunds, visit irs.gov.

Finding and Claiming Forgotten Funds

As a child, you may have dreamed about finding buried treasure, but you probably realized at an early age that it was unlikely you would discover a chest full of pirate booty. However, the possibility that you have unclaimed funds or other assets waiting for you is not a fantasy.

According to the National Association of Unclaimed Property Administrators (NAUPA), \$41.7 billion is waiting to be returned by state unclaimed property programs. So how do you find what is owed to you, even if it's not a fortune?

State unclaimed property programs

Every state has an unclaimed property program that requires companies and financial institutions to turn account assets over to the state if they have lost contact with the rightful owner for one year or longer (such as when the account has been inactive). It then becomes the state's responsibility to locate the owner. State-held property generally can be claimed in perpetuity by original owners and heirs.

For state programs, unclaimed property might include the following:

- Financial accounts
- Stocks
- Uncashed dividend or payroll checks
- Utility deposits
- Insurance payments and policies
- Trust distributions
- Mineral royalty payments
- Contents of safe-deposit boxes

To see whether you have unclaimed assets, you may have to search your state's database and the databases of states where you formerly lived or worked. It's possible that funds or assets are still waiting for you even if you moved away years ago. Fortunately, most states participate in a national database that you can search for free at MissingMoney.com.

Finding "lost" life insurance policies might take some legwork. Life insurance companies that can't locate a beneficiary must generally turn over benefits from an individual policy to state unclaimed property programs, but might not do so if the company does not know that the policy owner has passed away. If you believe that a family member owned life insurance but can't find the physical policy, you may need to look for evidence of it by searching personal records and files (assuming you have the authority to do so) or by contacting the policy owner's insurance agent, attorney, or other financial professionals.

Federal unclaimed property programs

The federal government also tracks unclaimed property, including:

- Tax refunds
- Pension funds
- Funds from failed banks and credit unions
- Funds owed investors from U.S. SEC enforcement cases
- Refunds from FHA-insured mortgages
- Unredeemed savings bonds that are no longer earning interest

Unlike states, the federal government does not have a central website for finding unclaimed money or assets, so you'll need to check a number of sources, including one of the biggest sources of unclaimed funds--the IRS--at irs.gov. To find out more about other federal programs that may hold unclaimed property, visit the NAUPA website, unclaimed.org.

Submitting a claim

To claim property, follow the instructions given, which will vary by the type of asset and where the property is held. You'll need to verify ownership, typically by providing information about yourself (such as your Social Security number and proof of address), and submit a claim form either online or by mail.

What if the listed property owner is deceased? A claim may be made by a survivor and will be payable according to state or federal law. For life insurance, you may need the full name and Social Security number of the deceased individual, a copy of the death certificate, and in some cases proof that you were the named beneficiary.

Be careful

Private companies may be paid to locate rightful owners and/or offer to help rightful owners obtain property for a fee, but legitimate companies will ask you to pay only after you receive your property. State laws limit fees companies charge, so check with your state before you sign any agreement. However, in most cases you should be able to find the same property for free by checking state or federal databases. Carefully check out anyone who contacts you, because some scammers will claim to have property or represent that they are from a government agency in order to obtain other information about you or your finances. For more information about protecting yourself, visit the Federal Trade Commission's consumer information site, consumer.ftc.gov.



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How many types of government savings bonds are there, and what's the difference between them?

While the U.S. government has issued 13 types of savings bonds, there are currently only two series available for purchase through the U.S. Treasury Department: Series EE bonds and Series I bonds. U.S. savings bonds are nonmarketable securities, which means you can't resell them unless you're authorized as an issuing or redeeming agent by the U.S. Treasury Department. Savings bonds are guaranteed by the federal government as to the timely payment of principal and interest.

You can buy Series EE bonds and I bonds in any amount from \$25 up to \$10,000, which is the maximum amount you can purchase for each bond type per calendar year. In other words, you may buy a total of \$10,000 annually in both EE and I bonds, for an annual total of \$20,000 for the two types combined.

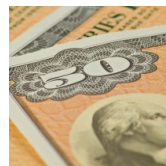
Series EE bonds earn a fixed rate of interest as long as you hold them, up to 30 years. You'll know the interest rate the bond will earn when you buy it. The U.S. Treasury announces the rate each May 1 (for new EE bonds issued between May 1 and October 31) and November

1 (for new EE bonds issued between November 1 and April 30).

Series I bonds are similar to EE bonds, but I bonds offer some protection against inflation by paying interest based on a combination of a fixed rate and a rate tied to the semi-annual inflation rate. The fixed rate component doesn't change, whereas the rate tied to inflation is recalculated and can change every six months. The total interest (fixed and inflation adjusted) compounds semi-annually.

In any case, the interest on EE or I savings bonds isn't paid to you until you cash in the bonds. You can cash in EE bonds or I bonds any time after one year, but if you cash them out before five years, you lose the last three months of interest.

The interest earned on both EE and I bonds is generally exempt from state income tax but subject to federal income tax. Interest income may be excluded from federal income tax when bonds are used to finance higher-education expenses, although restrictions may apply.



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Six Steps To Better Habits

Chances are, you made a number of firm resolutions at the start of the year—and, if you're normal, you failed to live up to several of them. Is there a better way to stick to your sincere resolutions to get more exercise, eat better, floss more often and lose weight?

A recent report suggests that there are actually six ways to improve your follow-through on self-improvement. The first is to start with a keystone habit, like exercise. A keystone habit is one that improves a variety of other habits by helping you see yourself in a different way. If you exercise, you tend to feel better about your body, eat more healthfully and procrastinate less often—a three-for-one deal.

Second, start small. If you want to floss more often, start by flossing just one tooth. Yes, that sounds silly, but eventually, if you start lazily, you'll get in the habit of having the floss in your hand once or twice a day, and you'll address those other teeth in your mouth. If you start off too ambitiously, meanwhile, the habit is never formed in the first place.

Third: make a plan for how you're going to follow through on the resolution. One interesting study showed a group of student photos of what could happen to them if they failed to get a preventive tetanus shot. Another group were given a map to the clinic and were helped to put an appointment on their calendar. Guess which group showed up to get the shot? 28% of the students who left with a plan followed through on it, while only 3% of those who saw the awful consequences of contracting tetanus got the shot. Writing down your goals, and putting your times to exercise on your calendar, can improve your odds of keeping your resolution.

Fourth: bribe yourself. Pick something you want, and give it to yourself only if you follow through on your resolution. One study participant wanted to listen to the audio book of the Hunger Games, so she only allowed herself to listen to it at the gym. Suddenly, she was looking forward to sitting on the exercise bike.

Fifth: remind yourself. You can set the alarm app on your phone to encourage you to save money, reduce smoking or go to the gym. You can make a checklist of the things you want to do every day.

Finally: Get your friends to help you keep your promises to yourself. Your support network can hold you accountable for stopping smoking or spending more time at the gym. They might even agree to accompany you.

Six Steps To Better Habits
Page 2

And if you fail to follow through despite all these tips? The research says that you should follow the advice of the great Stoic philosopher Marcus Aurelius: forgive yourself and try again.

Source:

- <http://www.bakadesuyo.com/2016/05/personal-habits>



Qualified Protection

You might be surprised to learn that your pension and IRA assets are protected from fraud, malfeasance and sly predation by an entirely different government agency than your taxable and brokerage accounts. Under the Investment Advisers Act of 1940, the Securities and Exchange Commission polices investment advice and the fairness of recommendations and markets related to taxable accounts. Retirement accounts are policed under the Employee Retirement Income Security Act (ERISA) of 1974, by the U.S. Department of Labor.

Recently, the Department of Labor created new rules which offer additional protections for retirement plan participants. The rules are spelled out in a document that runs to more than 1,000 pages, but the gist of it is that firms and individuals who provide investment advice to these plans, and recommend investments for the plan participants, must act as fiduciaries—which, broadly speaking, means that they are required to give advice that will be in the best interests of their clients, rather than lining their own pockets or selling what the brokerage firm wants to unload. The rules extend to rollovers into IRA accounts, and specify the types of compensation that these advisors may charge when they make recommendations.

In recent years, a variety of class-action lawsuits have challenged companies which were either accused of being careless about the fees they paid to consultants out of the accounts of plan participants, or included company stock as a prominent investment in the plan, or simply discriminated against one type of employee versus others. The list of defendants reads like a Who's Who of the Fortune 500, including Lucent, WorldCom, Household International, Dynegy, AT&T, CMS Energy, HealthSouth, Macy's, New York Life and Colgate.

In the past, these suits were typically brought against corporate giants, but that trend may be changing with the change in rules and increasing scrutiny of fees. A recent class action suit was filed against the plan sponsor and fiduciary advisors of the LaMettry's Collision, Inc. 401(k) Profit Sharing Plan, which has only 130 participants and just \$9.8 million in assets. The suit claims that the turn-key retirement plan package created and administered by Voya (formerly ING Life Insurance) was loaded with expensive investments, and that there were unnecessary revenue-sharing charges which, together, cost plan participants millions of dollars in lost retirement plan growth.

Among the particular irritants was the fact that Voya assessed a daily asset fee whenever employees invested in non-Voya funds, and then added on a monthly administration fee which resulted in costs that ran to 112% more than the cost of similar funds in the marketplace. (ING, now Voya, had also been named in the HealthSouth ERISA lawsuit.)

The lesson for businesses of all sizes is that it is more important than ever to take a hard look at the costs of your 401(k) plan provider, and see if there are hidden fees, preferential pricing for in-house funds and too much emphasis on company stock as the preferred investment. Employees are more empowered than ever to use the courts to rectify situations that deviate from best practices pricing in the retirement plan marketplace.

Bigger picture, does it make sense that assets in a 401(k) are better-protected than retail taxable investment accounts policed by the SEC? Should advisors to a qualified retirement plan have to be more careful, and frugal, in the advice they give than people who make investment recommendations to your taxable portfolio?

Obviously not. The SEC is considering changes to its own regulatory structure, and has announced that it will propose new rules next April. Professional advisors have been waiting for decades for rules that would rein in sales practices where agents and brokers are posing as “advisors.” Based on the track record so far, nobody is holding their breath.

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No So Powerful Powers of Attorney

Everybody should have a power of attorney—that is, a legal document that gives a designated individual the right to act on their behalf when making financial decisions. The power of attorney is most often used by adult children to make decisions on behalf of aging parents when they are no longer capable of making sound decisions on their own.

The most common decisions that the adult children will make relate to money, and this is beginning to cause problems in some states. Banks are starting to see cases where the power of attorney is abused by adult children seeking to enrich themselves at their parents' expense—a form of elder abuse that Alzheimers sufferers are particularly vulnerable to. Wary of being held liable for customers' losses, some financial institutions have stopped accepting power of attorney documents. In some cases, adult children with the best intentions have had to take legal action to enforce a document executed and followed in good faith.

How can you prevent these misunderstandings in the first place? A standard durable power of attorney gives the son or daughter the authority to act on the parent's behalf immediately after the document is signed. A "springing" power of attorney, on the other hand, doesn't generally give the child that authority until the parent becomes incapacitated. Most power of attorney documents are of the "springing" variety, which can create extra complications for adult children: they have to obtain a statement from a physician certifying that the parent is incapacitated. Recent medical-privacy laws can make it difficult for the physician to communicate this information without authorization, leading to a legal Catch 22. The durable power of attorney encounters no such problems.

Financial planners can identify what their clients' banks and brokerage firms require in the way of documentation, and in some cases, the power of attorney document's language can be amended according to the terms their lawyers prefer—although most advisors counsel against a clause that the bank may ask for, waiving the right to sue if something goes awry.

If a bank or brokerage firm rejects a legitimate power of attorney, ask to speak to a supervisor, or try another branch. Also recognize that some states require financial institutions to accept a power of attorney unless they have reason to report suspected abuse to authorities or are aware that someone else has done so. These laws, in some states, require financial institutions to pay costs families incur to hire an attorney to enforce the power of attorney that was rejected.

No So Powerful Powers of Attorney Page 2

The basic point is to recognize that simply having a lawyer draft a general document may not be enough to accomplish what the power of attorney is designed to do. It helps to get professional advice on the practical applications of the power of attorney document.

Source:

- <http://www.wsj.com/articles/when-the-power-of-attorney-lacks-power-1465783682>