Johnston Investment Counsel

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Surviving the College Application Process
Four Reasons Why People Spend Too Much
Common Financial Wisdom: Theory vs. Practice
Can I make charitable contributions from my IRA in 2016?

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Surviving the College Application Process

There's no doubt about it--the college application process can be stressful for many high school students and their parents. After all, it's easy to feel overwhelmed while trying to manage numerous applications, each with varying deadlines and requirements. If your child is applying to college, here are some things to keep in mind before he or she gets started.

Application timeline

For students applying under the regular decision process, college applications are generally submitted in the late fall or winter of your child's senior year of high school, with acceptance or rejection letters arriving in the spring. While application timelines vary, depending on the college, many colleges open their application process by the first week of September. In addition, a growing number of colleges offer "rolling" admission, which typically provides notice of acceptance a few weeks after an application is submitted.

Many students also take advantage of an early application process in which they can apply early to a college and find out whether they are accepted before regular applicants. Early application deadlines are usually in October or November. There are two main early application options--early action and early decision. With early action, your child can apply to several schools and has until the normal deadline (typically May 1) to decide which one to attend. With early decision, your child applies to only one college and, if accepted, must commit to attending immediately. Not every college offers early action or early decision.

Application requirements

Each college has its own application requirements. However, many colleges use the Common Application, which includes:

- High school transcript
- SAT/ACT scores
- Biographical and family information
- List of extracurricular activities, hobbies, and interests
- Letters of recommendation (from teachers typically, but sometimes community leaders)
- Personal essay
- Application fee

While some application requirements are not open to interpretation, your child will have the chance to stand out from the pack through his or her reference letters and personal essay. These two items are unique parts of the application because they can help the admissions team distinguish your child from other applicants.

The importance of staying organized

One of the most important things you and your child can do during the college application process is to stay organized. You'll want to keep track of the various application deadlines on one centralized calendar that both of you can access. You should also create a separate filing system to help organize the applications and correspondence for each college.

A word on independent educational consultants

Hiring an independent educational consultant to help with the college admissions process has become increasingly popular in recent years, especially with high-achieving seniors. An independent educational consultant can help you and your child select the appropriate college to fit your child's academic and social needs, and can also help manage application requirements and deadlines.

The cost of educational consultants depends on the types of services provided. Comprehensive, multi-year consulting packages can cost upwards of several thousand dollars. However, consultants may also offer more affordable hourly rates and a la carte services.

Four Reasons Why People Spend Too Much

You may be more likely to overspend on a particular purchase compared to other possible expenditures. According to research conducted by the Consumer Reports National Research Center, adults in the United States reported that they would spend money on the following throughout the year:

- *54%--electronics*
- *33%--appliances*
- *27%--a car*
- *23%--home remodeling*

Source: Consumer Reports, November 2014

You understand the basic financial concepts of budgeting, saving, and monitoring your money. But this doesn't necessarily mean that you're in control of your spending. The following reasons might help explain why you sometimes break your budget.

1. Failing to think about the future

It can be difficult to adequately predict future expenses, but thinking about the future is a key component of financial responsibility. If you have a tendency to focus on the "here and now" without taking the future into account, then you might find that this leads you to overspend.

Maybe you feel that you're acting responsibly simply because you've started an emergency savings account. You might feel that it will help you cover future expenses, but in reality it may create a false sense of security that leads you to spend more than you can afford at a given moment in time.

Remember that the purpose of your emergency savings account is to be a safety net in times of financial crisis. If you're constantly tapping it for unnecessary purchases, you aren't using it correctly.

Change this behavior by keeping the big picture in perspective. Create room in your budget that allows you to spend discretionary money and use your emergency savings only for true emergencies. By having a carefully thought-out plan in place, you'll be less likely to overspend without realizing it.

2. Rewarding yourself

Are you a savvy shopper who rarely splurges, or do you spend too frequently because you want to reward yourself? If you fall in the latter category, your sense of willpower may be to blame. People who see willpower as a limited resource often trick themselves into thinking that they deserve a reward when they are able to demonstrate a degree of willpower. As a result, they may develop the unhealthy habit of overspending on random, unnecessary purchases in order to fulfill the desire for a reward.

This doesn't mean that you're never allowed to reward yourself--you just might need to think of other ways that won't lead to spending too much money. Develop healthier habits by rewarding yourself in ways that don't cost money, such as spending time outdoors, reading, or meditating. Both your body and your wallet will thank you.

If you do decide to splurge on a reward from time to time, do yourself a favor and plan your purchase. Figure out how much it will cost ahead of time so you can save accordingly instead of tapping your savings. Make sure that your reward, whether it's small or big, has a purpose and is meaningful to you. Try scaling back. For example, instead of dining out every weekend, limit this expense to once or twice a month. Chances are that you'll enjoy going out more than you did before, and you'll feel good about the money you save from dining out less frequently.

3. Mixing mood with money

Your emotional state can be an integral part of your ability to make sensible financial decisions. When you're unhappy, you might not be thinking clearly, and saving is probably not your first priority. Boredom or stress also makes it easy to overspend because shopping serves as a fast and easy distraction from your feelings. This narrow focus on short-term happiness might be a reason why you're spending more than normal.

Waiting to spend when you're happy and thinking more positively could help shift your focus back to your long-term financial goals. Avoid temptations and stay clear of stores if you feel that you'll spend needlessly after having an emotionally challenging day. Staying on track financially (and emotionally) will benefit you in the long run.

4. Getting caught up in home equity habits

Do you tend to spend more money when the value of your assets--particularly your property--increases? You might think that appreciating assets add to your spending power, thus making you feel both wealthier and more financially secure. You may be tempted to tap into your home equity, but make sure you're using it wisely.

Instead of thinking of your home as a piggy bank, remember it's where you live. Be smart with your home equity loan or line of credit--don't borrow more than what is absolutely necessary. For example, you may need to borrow to pay for emergency home repairs or health expenses, but you want to avoid borrowing to pay for gratuitous luxuries that could put you and your family's financial security at risk. After all, the lender could foreclose if you fail to repay the debt, and there may be closing costs and other charges associated with the loan.

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Common Financial Wisdom: Theory vs. Practice

It might not always be possible to follow some common financial wisdom.

Note: All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

In the financial world, there are a lot of rules about what you *should* be doing. In theory, they sound reasonable. But in practice, it may not be easy, or even possible, to follow them. Let's look at some common financial maxims and why it can be hard to implement them.

Build an emergency fund worth three to six months of living expenses

Wisdom: Set aside at least three to six months worth of living expenses in an emergency savings account so your overall financial health doesn't take a hit when an unexpected need arises.

Problem: While you're trying to save, other needs--both emergencies and non-emergencies--come up that may prevent you from adding to your emergency fund and even cause you to dip into it, resulting in an even greater shortfall. Getting back on track might require many months or years of dedicated contributions, leading you to decrease or possibly stop your contributions to other important goals such as college, retirement, or a down payment on a house.

One solution: Don't put your overall financial life completely on hold trying to hit the high end of the three to six months target. By all means create an emergency fund, but if after a year or two of diligent saving you've amassed only two or three months of reserves, consider that a good base and contribute to your long-term financial health instead, adding small amounts to your emergency fund when possible. Of course, it depends on your own situation. For example, if you're a business owner in a volatile industry, you may need as much as a year's worth of savings to carry you through uncertain times.

Start saving for retirement in your 20s

Wisdom: Start saving for retirement when you're young because time is one of the best advantages when it comes to amassing a nest egg. This is the result of compounding, which is when your retirement contributions earn investment returns, and then those returns produce earnings themselves. Over time, the process can snowball.

Problem: How many 20-somethings have the financial wherewithal to save earnestly for retirement? Student debt is at record levels, and young adults typically need to budget for rent, food, transportation, monthly utilities, and cell phone bills, all while trying to contribute to an emergency fund and a down payment fund.

One solution: Track your monthly income and expenses on a regular basis to see where your money is going. Establish a budget and try to live within your means, or better yet *below* your means. Then focus on putting money aside in your workplace retirement plan. Start by contributing a small percentage of your pay, say 3%, to get into the retirement savings habit. Once you've adjusted to a lower take-home amount in your paycheck (you may not even notice the difference!), consider upping your contribution little by little, such as once a year or whenever you get a raise.

Start saving for college as soon as your child is born

Wisdom: Benjamin Franklin famously said there is nothing certain in life except death and taxes. To this, parents might add college costs that increase every year without fail, no matter what the overall economy is doing. As a result, new parents are often advised to start saving for college right away.

Problem: New parents often face many other financial burdens that come with having a baby; for example, increased medical expenses, baby-related costs, day-care costs, and a reduction in household income as a result of one parent possibly cutting back on work or leaving the workforce altogether.

One solution: Open a savings account and set up automatic monthly contributions in a small, manageable amount--for example, $25 or $50 per month--and add to it when you can. When grandparents and extended family ask what they can give your child for birthdays and holidays, you'll have a suggestion.

Subtract your age from 100 to determine your stock percentage

Wisdom: Subtract your age from 100 to determine the percentage of your portfolio that should be in stocks. For example, a 45-year-old would have 55% of his or her portfolio in stocks, with the remainder in bonds and cash.

Problem: A one-size-fits-all rule may not be appropriate for everyone. On the one hand, today's longer life expectancies make a case for holding even more stocks in your portfolio for their growth potential, and subtracting your age from, say, 120. On the other hand, considering the risks associated with stocks, some investors may not feel comfortable subtracting their age even from 80 to determine the percentage of stocks.

One solution: Focus on your own tolerance for risk while also being mindful of inflation. Consider looking at the historical performance of different asset classes. Can you sleep at night with the investments you've chosen? Your own peace of mind trumps any financial rule.

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Can I make charitable contributions from my IRA in 2016?

Yes, if you qualify. The law authorizing qualified charitable distributions, or QCDs, has recently been made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015.

You simply instruct your IRA trustee to make a distribution directly from your IRA (other than a SEP or SIMPLE) to a qualified charity. You must be 70½ or older, and the distribution must be one that would otherwise be taxable to you. You can exclude up to $100,000 of QCDs from your gross income in 2016. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional $100,000 of QCDs. But you can't also deduct these QCDs as a charitable contribution on your federal income tax return--that would be double dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to take from your IRA in 2016, just as if you had received an actual distribution from the plan. However, distributions (including RMDs) that you actually receive from your IRA and subsequently transfer to a charity cannot qualify as QCDs.

For example, assume that your RMD for 2016 is $25,000. In June 2016, you make a $15,000 QCD to Qualified Charity A. You exclude the $15,000 QCD from your 2016 gross income. Your $15,000 QCD satisfies $15,000 of your $25,000 RMD. You'll need to withdraw another $10,000 (or make an additional QCD) by December 31, 2016, to avoid a penalty.

You could instead take a distribution from your IRA and then donate the proceeds to a charity yourself, but this would be a bit more cumbersome and possibly more expensive. You'd include the distribution in gross income and then take a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction due to IRS limits. QCDs avoid all this by providing an exclusion from income for the amount paid directly from your IRA to the charity--you don't report the IRA distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.

Can I name a charity as beneficiary of my IRA?

Yes, you can name a charity as beneficiary of your IRA, but be sure to understand the advantages and disadvantages.

Generally, a spouse, child, or other individual you designate as beneficiary of a traditional IRA must pay federal income tax on any distribution received from the IRA after your death. By contrast, if you name a charity as beneficiary, the charity will not have to pay any income tax on distributions from the IRA after your death (provided that the charity qualifies as a tax-exempt charitable organization under federal law), a significant tax advantage.

After your death, distributions of your assets to a charity generally qualify for an estate tax charitable deduction. In other words, if a charity is your sole IRA beneficiary, the full value of your IRA will be deducted from your taxable estate for purposes of determining the federal estate tax (if any) that may be due. This can also be a significant advantage if you expect the value of your taxable estate to be at or above the federal estate tax exclusion amount ($5,450,000 for 2016).

Of course, there are also nontax implications. If you name a charity as sole beneficiary of your IRA, your family members and other loved ones will obviously not receive any benefit from those IRA assets when you die . If you would like to leave some of your assets to your loved ones and some assets to charity, consider leaving your taxable retirement funds to charity and other assets to your loved ones. This may offer the most tax-efficient solution, because the charity will not have to pay any tax on the retirement funds.

If retirement funds are a major portion of your assets, another option to consider is a charitable remainder trust (CRT). A CRT can be structured to receive the funds free of income tax at your death, and then pay a (taxable) lifetime income to individuals of your choice. When those individuals die, the remaining trust assets pass to the charity. Finally, another option is to name the charity and one or more individuals as co-beneficiaries. (Note: There are fees and expenses associated with the creation of trusts.)

The legal and tax issues discussed here can be quite complex. Be sure to consult an estate planning attorney for further guidance.

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403(b) Plans and Saving For Retirement

In 1958, the Internal Revenue Service (IRS) created 403(b) plans to encourage employees of certain organizations to begin saving for retirement. In 2001, the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) increased the amount employers and participants could contribute and created a Roth option. Thanks to the Pension Protection Act of 2006, these changes will be permanent.

A Closer Look

403 (b) plan contribution amounts are subject to annual inflation increases. An employee's contributions to a traditional 403(b) are made with pre-tax dollars, and earnings grow tax deferred. In retirement, distributions will be subject to income tax; withdrawals made before the age of 59½ may be subject to a 10% federal income tax penalty. The following guidelines outline the amount that employees may contribute to 403(b) plans:

- There is an elective salary deferral limit of $18,000 in 2015.
- As much as 100% of compensation, as long as that amount is less than the elective deferral limit.
- Those above age 50 may contribute an extra $6,000 for 2015.

In addition, under the 15-year rule, employees with 15 years of service for the same employer (not necessarily consecutive years) may contribute an additional $3,000 per year, if previous contributions were not higher than an average of $5,000.

The Roth Option

With the Roth option, 403(b) participants make after-tax contributions to a Roth account. Earnings grow tax deferred, and distributions are tax free, provided the participant has reached the age of 59½ and has owned the account for five years.

Any matching contributions made by employers must be invested in a traditional 403(b) account, not a Roth account. This means that, even if employees make all of their contributions exclusively to a Roth account, they would still owe tax in retirement on withdrawals from funds contributed on a pre-tax basis by their employers.

Workers should also be aware that the 403(b) annual deferral limits apply to all 403(b) contributions, regardless of whether they are made on a pre-tax or after-tax basis. If employees contribute to a Roth 403(b), they may have to reduce or discontinue their contributions to their employer's traditional 403(b) plan to avoid exceeding these limits.

Provided employees comply with these limits, however, they are allowed to put money into both types of 403(b) plans.

Rollover Guidelines

Funds in a 403(b) plans are eligible for rollover into a 401(k) plan as long as the following apply:

- The individual must be a 401(k) participant.
- Rollovers must be allowed in the 401(k) plan's rules.
- Distributions from a 403(b) plan must be qualified, such as: death, disability, employment severance, or reaching [attainment of] age 59½.

The Pension Act permits any beneficiary to roll over his or her interest in a 403(b) plan to an IRA, upon the death of the account owner. Taxes will only be due when normal distributions are taken. Formerly, only spousal beneficiaries were permitted this option.

403(b) participants may roll over funds from a 403(b) plan directly into a Roth IRA, and the rollover will be treated as a conversion. However, participants must satisfy all conversion requirements. In addition, 403(b) participants are now able to make hardship withdrawals on behalf of any listed beneficiary.

The combination of favorable legislation and the personal advantages of 403(b) plans make participation more appealing than ever. Even employees who expect benefits from a traditional pension plan should consider building additional retirement savings with a 403(b) plan, if possible.

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New Guidelines, Better Advice

Most people think that the Securities and Exchange Commission (SEC) regulates the investment markets and providers of investment advice, and that the Financial Industry Regulatory Authority (FINRA) regulates the Wall Street sales agents.

But in fact, when it comes to your retirement plan, like a 401(k) account, the chief regulator is actually the United States Department of Labor. Anybody who provides advice to these plans has to meet standards generally defined in the 1975 law known as ERISA (Employee Retirement Income Security Act), which is administered by the Department of Labor.

The list of retirement plan advisors is a long one. There are independent financial advisors who receive fees directly for their work, and act in the best interests of the plan participants. But many plans have been sold by insurance agents and brokers, who creatively introduce a growing array of hidden charges and fees and high-cost investments which, according to analysis by the White House Council of Economic Advisors, together have been quietly shifting roughly $17 billion a year out of the pockets of American workers into Wall Street bonus pools and insurance company coffers.

This month, the Department of Labor issued rules designed to stop these brokers and agents from working in their own interests rather than the interests of American workers. The rule imposes iron-clad fiduciary requirements on anyone who provides investment advice to these plans or plan participants. "Fiduciary" is a legal term that is grounded in case law, but essentially it means that the customer's interests must be the priority when any investment recommendation is made.

In addition, the Department of Labor extended these new, stronger protective rules to anyone who recommends that consumers roll their money out of a retirement plan into an IRA. Those investment recommendations, too, must also be made in the best interests of the customer. This was intended to prevent insurance agents and brokers from recommending that their customers move money out of the newly-cleaned-up plan into the same high-commission products (like variable annuities and non-traded real estate investment trusts) that they had been recommending in the plan.

How well will this new set of rules protect consumers? At this point, there is reason to be optimistic. The larger sales organizations on Wall Street and in the insurance industry could be sued under this strict fiduciary standard if their brokers and agents continue their current practices, and they would be unlikely to prevail in court. The safest course would be for these organizations to set up divisions made up of people who would be trained to recommend only lower-cost or high-performing investment options, meanwhile giving up the sly hidden fees that they have been collecting for decades.

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Alas, the rule specifically states that existing arrangements will be grandfathered, which means that if you're a participant in a plan at your workplace, you may not immediately feel the impact of new fiduciary obligations. But over time, most companies are expected to take a closer look at their fee structure, and as they amend their plans, the money leaks will gradually be repaired.

Eventually, if the analysis is right and workers suddenly find themselves with, collectively, $17 billion a year more in their retirement accounts than they were getting before, we could see a difference in the number of people who can afford retirement. The only losers would be Wall Street bonus pools and insurance agent commissions, which, for most observers, actually makes this a win-win.

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Tax Cost of Living

Welcome to tax day. We all pay federal taxes under the same rules, but the state regimes are wildly different, and there are a lot of moving parts that make up the cost to live in a state. Which of them take the most money out of the pockets of their residents, and where is living cheapest, from a tax standpoint?

The Wallet Hub website recently looked at three tax variables—property taxes; individual income taxes; and total sales and gross receipts taxes—all as a fraction of total state personal income, added them up and determined the highest and lowest-tax states.

The results? Most readers won't be surprised that New York came in first overall, with property taxes equal to 4.65% of total personal income for all residents, plus individual income taxes of 4.76% (by far the highest overall percentage of any state) and a 3.71% sales and receipts tax burden. Add them up, and New Yorkers are paying, in aggregate, 13.12% of their total personal income for the privilege of living in the state.

Hawaii (11.86%), Maine (11.13%), Vermont (11.13%), Connecticut (10.91%), Minnesota (10.46%), New Jersey (10.38%), Rhode Island (10.36%), Wisconsin (10.32%) and Illinois (10.19%) all drained more than 10% of total income into their state coffers.

The cheapest states? Alaska (5.18%) and Delaware (5.91%) were the only two that came in under 6%, followed by Tennessee (6.56%), New Hampshire (6.88%), South Dakota (6.94% and Oklahoma (6.95%). (You can see how your state compares in each category, and in the overall rankings, here: https://wallethub.com/edu/states-with-highest-lowest-tax-burden/20494/)

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Work Longer, Live Longer

There's finally an answer to an age-old question: How can you live a longer, more satisfying life?

The answer: work past the traditional retirement age of 65.

A new study published in the *Journal of Epidemiology & Community Health* looked at the risk of dying for different age groups of Americans, and compared it to their retirement age. The researchers found that the likelihood of dying in any given year was 11% lower among people who delayed retirement for just one single year—from age 65 to age 66. By age 70, people who continued working experienced a 38% lower risk of dying than people of the same age who had retired at age 65. By age 72, the risk was 44% lower. These results seemed not to be affected by other variables, like gender, lifestyle, education, income and even occupation.

Why is working longer good for your health? The article suggested that when you continue working, even part-time, your normal age-related decline in physical and mental functioning happens more slowly. You're having to stay engaged in the complicated work-world, which keeps you sharp—and, apparently, alive.

Source:

- http://www.wsj.com/articles/retiring-after-65-may-help-people-live-longer-1462202016