



## Voya Financial Advisors, Inc.

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### Q2 2019

Rules on Opening a 529 Plan Account for College

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Do I need to get a REAL ID when I renew my license?

Inflation Variation, Eroding Purchasing Power



# Eugene's Quarterly Newsletter

## Planning Your Financial Future

### Time for a Mid-Year Investment Check



Many investors may be inclined to review their portfolios only when markets hit a rough patch, but careful planning is essential in all economic climates. So whether the markets are up or down, periodically

reviewing your portfolio with your financial professional can be an excellent way to keep your investments on track, and midway through the year is a good time for a checkup. Here are three questions to consider.

#### 1. How have my investments performed so far this year?

Review a summary of your portfolio's total return (minus all fees) and compare the performance of each asset class against a relevant benchmark. For example, for stocks, you might compare performance against the S&P 500 (for domestic large caps), the Russell 2000 (for small caps), or the Global Dow (for global stocks). For mutual funds, you might use the Lipper indexes to see how your funds performed against a relevant benchmark. (Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security; you can't invest directly in an unmanaged index.)

Consider any possible causes of over- or underperformance in each asset class. If any result was concentrated in a single asset class or investment, was that performance consistent with the asset's typical behavior over time? Or was recent performance an anomaly that bears watching or taking action?

In addition, make sure you know the total fees you are paying (e.g., mutual fund expense ratios, transaction fees), preferably as a dollar amount and not just as a percentage of assets.

#### 2. Do I need to make adjustments?

Review your financial goals (e.g., retirement, college, home purchase) and the market outlook for the remainder of the year to determine whether your investment asset mix for each goal continues to meet your time frame, risk tolerance, and overall needs. Of course, no one knows exactly what the markets

will do in the future, but by looking at current conditions and projections for interest rates, inflation, and economic growth, you might identify factors that could influence the markets in the months ahead. With this broader perspective, you can update your investment strategy as needed.

Remember, even if you've chosen an appropriate asset allocation strategy for various goals, market forces may have altered your mix without any action on your part. For example, maybe your asset allocation preference is 60% stocks and 40% bonds, but now due to investment returns your portfolio is 75% stocks and 25% bonds.

To return your asset mix back to its original allocation, you may want to rebalance your investments. This can be done by selling investments in the overrepresented classes and transferring the proceeds to the underrepresented asset classes, or simply by directing new contributions into asset classes that have been outpaced by others until the target allocation is reached. Keep in mind that rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.

*Asset allocation does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.*

#### 3. Am I maximizing my tax savings?

Taxes can take a bite out of your overall investment return. You can't control the markets, but you can control the accounts you use to save and invest, as well as the assets you hold in those accounts and the timing of when you sell investments. Dividing assets strategically among taxable, tax-deferred, and tax-exempt accounts may help reduce the effect of taxes on your overall portfolio.

In sum, by taking the time to periodically review your portfolio in good economic times as well as bad, you can feel confident knowing that your investing strategy is attuned to current market conditions and your overall needs.

*All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.*



### 529 plan assets reach \$333 billion

Assets in 529 plans reached \$333 billion as of September 2018 — \$310 billion (93%) in college savings plans and \$23 billion (7%) in prepaid tuition plans.

Source: Strategic Insight, 529 Data Highlights, 3Q 2018

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

## Rules on Opening a 529 Plan Account for College

Year over year, participation in 529 plans continues to rise.<sup>1</sup> Anyone can open an account, lifetime contribution limits are typically over \$300,000, and there are tax benefits if the funds are used for college. 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 you have: college savings plan or prepaid tuition plan. 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 stronger 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 the same 529 plan 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.

<sup>1</sup> Strategic Insight, 529 Data Highlights, 3Q 2018



# Financial Advice for Recent College Graduates



You've put in the hard work as a college student and finally received your diploma. Now you're ready to head out on your own. And though you may not have given much thought to your financial future when you were in college, you have new financial challenges and goals to consider. Fortunately, there are some simple steps you can take to start on the right track with your personal finances.

## Set financial goals

Setting goals is an important part of life, especially when it comes to your finances. And though your financial goals will likely change over time, you can always make adjustments in the future. Start out by asking yourself some basic questions about your financial goals, such as whether they are short term (e.g., saving money to buy a car or rent an apartment) or long term (e.g., paying off student loans or buying your own home). Next, ask yourself how important it is to accomplish each goal and determine how much you would need to save for each goal.

## Understand the importance of having a budget

A budget is an important part of managing your finances. Knowing exactly how you are spending your money each month can set you on a path to pursue your financial goals. Start by listing your current monthly income. Next, add up all of your expenses. It may help to divide expenses into two categories: fixed (e.g., housing, food, transportation, student loan payments) and discretionary (e.g., entertainment, vacations). Ideally, you should be spending less than you earn. If not, you need to review your expenses and look for ways to cut down on your spending.

Remember that the most important part of budgeting is sticking to it, so you should monitor your budget regularly and make changes as needed. To help stay on track, try to make budgeting a part of your daily routine and be sure to give yourself an occasional reward (e.g., dinner at a restaurant instead of cooking at home).

## Establish an emergency fund

An emergency fund is money set aside to protect yourself in the event of an unexpected financial crisis, such as a job loss or medical bills. Typically, you will want to have at least three to six months' worth of living expenses in your cash reserve. Of course, the amount you should save depends on your individual circumstances (e.g., job stability, health status).

A good way to establish an emergency fund is to earmark a portion of your paycheck each pay period to help achieve your goal.

## Manage your debt situation properly

Whether it's debt from student loans or credit cards, you'll want to avoid the pitfalls that sometimes accompany borrowing. To manage your debt situation properly, keep track of your loan balances and interest rates and develop a plan to manage your payments and avoid late fees. If you need help paying off your student loans, consider the following tips:

- Find out if your employer offers some type of student debt assistance
- Contact your lender about your repayment options
- Consider whether loan consolidation or refinancing is available

## Maintain good credit

Having good credit will impact so many different aspects of your financial situation, from obtaining a loan to gaining employment. You can establish and maintain a good credit history by avoiding late payments on existing loans and paying down any debt you may have. In addition, you should monitor your credit report on a regular basis for possible errors or signs of fraud/identity theft.

## Determine your insurance needs

Insurance might not be the first thing that comes to mind when you think about your finances. However, having the right amount of insurance is an important part of any financial strategy. Your specific insurance needs will depend on your circumstances. For example, if you rent an apartment, you'll need renters insurance to protect yourself against loss or damage to your personal property. If you own a car, you should have appropriate coverage for that as well. You may also want to evaluate your need for other types of insurance, such as disability and life.

As for health insurance, you have a couple of options. You can usually stay on your parents' insurance until you turn 26. In addition, you may have access to health insurance through your employer or a government-sponsored health plan, or you can purchase your own plan through the federal or state-based Health Insurance Marketplace. For more information, visit [healthcare.gov](https://www.healthcare.gov).



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## Do I need to get a REAL ID when I renew my license?

If you need to renew your driver's license, you may want to get a REAL ID. The REAL ID Act, passed by Congress in 2005, enacts the 9/11

Commission's recommendation that the federal government set minimum security standards for state-issued driver's licenses and identification cards.

Beginning October 1, 2020, residents of every state and territory will need to present a REAL ID-compliant license/identification card, or another acceptable form of identification (such as a passport), to access federal facilities, enter nuclear power plants, and board commercial aircraft. Although implementation has been slow, states have made progress in meeting the REAL ID Act's recommendations. A majority of states and territories, along with the District of Columbia, have complied with all REAL ID requirements. The remaining noncompliant jurisdictions have been granted a temporary extension from the Department of Homeland Security.<sup>1</sup>

To obtain a REAL ID, you must apply in person at your state's department of motor vehicles (or other approved service center). Your picture will

be taken and signature captured electronically. You must provide more documentation than you would normally need for a standard driver's license or identification card. A REAL ID requires that you show (in original or certified form) proof of identity and lawful presence (e.g., U.S. passport, birth certificate), state residency (e.g., mortgage statement, utility bill), and Social Security number (e.g., Social Security card, paystub). In addition, if your current name doesn't match the one on your proof of identity document, you must prove your legal name change (e.g., marriage certificate).

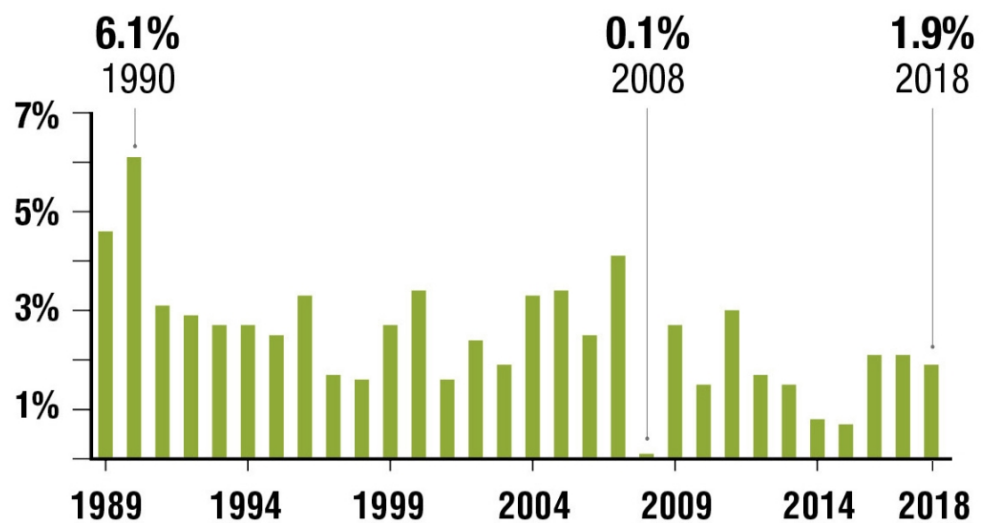
When states first implemented REAL ID recommendations, applicants were faced with delays and long wait times. However, many states have since streamlined the process by allowing applicants to start the application process online. For more information on applying for a REAL ID, you can visit your state's department of motor vehicles website or [dhs.gov/real-id](https://dhs.gov/real-id).

<sup>1</sup> Department of Homeland Security, REAL ID Compliance Extension Updates, October 2018

## Inflation Variation, Eroding Purchasing Power

Inflation averaged 2.5% for the 30-year period from 1989 to 2018. Although the recent trend is below the long-term average, even moderate inflation can reduce purchasing power and cut into the real return on your investments.

### Annual rate of inflation, based on change in the Consumer Price Index



Source: U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)

