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**Planning is bringing the future into the present so that you can do something about it now.**

*Alan Lakein*

To schedule your year-end investment review, please call our office at 508-753-8807 or 800-440-8807.

Our best wishes for a happy Thanksgiving from all of us at Bartholomew & Company!

Tom

### November 2015

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# Bartholomew

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## Don't Forget About Year-End Investment Planning



As the year draws to a close, there might be a slew of tasks on your to-do list. One task to consider is setting up a meeting with your financial professional to review your investments. If you take the

time to get organized now, it may help you accomplish your long-term goals more efficiently. Here are some steps that might help.

### Evaluate your investment portfolio

During the meeting with your financial professional, review how your overall investment portfolio fared over the past year and determine whether adjustments are needed to keep it on track.

Here are some questions to consider:

- How did your investments perform during the year? Did they outperform, match, or underperform your expectations?
- What caused your portfolio to perform the way it did? Was it due to one or multiple factors?
- Were there any consistencies or anomalies compared to past performance?
- Does money need to be redirected in order to pursue your short-term and long-term goals?
- Is your portfolio adequately diversified, and does your existing asset allocation still make sense?

Addressing these issues might help you determine whether your investment strategy needs to change in the coming year.

### Aim for balance

During the portfolio review process, look at your current asset allocation among stocks, bonds, and cash alternatives. You might determine that one asset class has outperformed the others and now represents a larger proportion of your portfolio than desired. In this situation, you might want to rebalance your portfolio.

The process of rebalancing typically involves buying and selling securities to restore your portfolio to your targeted asset allocation based on your risk tolerance, investment objectives, and time frame. For example, you might sell

some securities in an overweighted asset class and use the proceeds to purchase assets in an underweighted asset class; of course, this could result in a tax liability.

If you own taxable investments that have lost money, consider selling shares of losing securities before the end of the year to recognize a tax loss on your tax return. Tax losses, in turn, could be used to offset any tax gains. When attempting to realize a tax loss, remember the wash sale rule, which applies when you sell a security at a loss and repurchase the same security within 30 days of the sale. When this happens, the loss is disallowed for tax purposes.

If you don't want to sell any of your current investments but want to change your asset allocation over time, you might adjust future investment contributions so that more money is directed to the asset class you want to grow. Once your portfolio's asset allocation reaches your desired balance, you can revert back to your previous strategy, if desired. Keep in mind that asset allocation and diversification do not guarantee a profit or protect against loss; they are methods used to help manage investment risk.

Your financial professional can help you understand how your investments may be affected by capital gains and other taxes. You can learn more about current tax laws and rates by visiting [www.irs.gov](http://www.irs.gov).

### Set goals for the coming year

After your year-end investment review, you might resolve to increase contributions to an IRA, an employer-sponsored retirement plan, or a college fund next year. With a fresh perspective on where you stand, you may be able to make better choices next year, which could potentially benefit your investment portfolio over the long term.

**Note:** *There is no assurance that working with a financial professional will improve investment results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.*



## Think Twice Before Counting on a COLA



### Will you receive a Social Security COLA in 2016?

The Social Security Administration has announced that, because of low annual inflation, Social Security recipients will not receive a cost-of-living adjustment (COLA) in their benefit checks in 2016. (Source: Social Security Administration press release, October 15, 2015)

*\*Source: 2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, p.32*

The rising costs of food, gas, electricity, and health care can strain anyone's budget. The situation is even worse if your living expenses increase while your income stays the same, because your purchasing power will steadily decline over time. That's why cost-of-living adjustments, or COLAs, are especially valuable to retirees and others living on fixed incomes.

A COLA is an increase in regular income you receive (such as a Social Security or pension benefit) that is meant to offset rising prices. It's important protection because price inflation has occurred in most years during the last 40 years. However, a COLA may not be payable in years when inflation slows or declines.

### How COLAs work

It's easy to think of a COLA as a "raise," but a COLA is meant to help you maintain your standard of living, not improve it. For example, let's say you receive a \$2,000 monthly retirement benefit, and the overall cost of the things you need to purchase increases by 3% during the year. The next year, you receive a 3% COLA, or an extra \$60 a month, to help you manage rising prices.

That 3% COLA doesn't sound like much, but without a COLA, inflation can seriously erode your retirement income. Assuming a 3% inflation rate, in just 10 years, the purchasing power of your monthly \$2,000 benefit would drop to \$1,520; in 25 years, the purchasing power of your benefit would be only \$963, less than half of what you started with.

### Who receives COLAs?

Social Security is the major source (and in some cases the only source) of inflation-protected retirement income for many Americans. COLAs are also commonly paid to retirees who are covered by state or federal pensions. However, most private pensions do not offer COLAs.

Less commonly, employers may offer COLAs as part of compensation packages. For an additional cost, you might also be able to purchase riders for certain insurance policies (such as disability income and long-term care policies) to ensure that the benefits you receive keep pace with inflation (subject to contractual terms, conditions, and limitations).

### When there is no Social Security COLA

Social Security COLAs are officially announced each October and reflect the annual increase in the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The average CPI-W for the third calendar quarter of the last year a COLA was payable is

compared to the average CPI-W for the third calendar quarter of the current year. Any percentage increase that results is the COLA for that year and will be payable to beneficiaries beginning in January of the following year. However, beneficiaries will not receive a COLA if there is no increase in the average annual CPI-W.

No COLA for Social Security beneficiaries also means no increase in two Social Security limits: the contribution and benefit base (also called the Social Security wage base) and the retirement earnings test exempt amounts.

The contribution and benefit base is the cap on the annual amount of wages and self-employment income subject to Social Security payroll taxes. The retirement earnings test applies only to people under full retirement age (FRA) who receive Social Security benefits and also have earnings from work. If your earnings from work exceed a specific annual limit--the retirement earnings test exempt amount--part of your Social Security benefit will be withheld. (There are actually two different earnings test exempt amounts. One limit applies before the calendar year you reach FRA, and a higher limit applies in the year you reach FRA, up until the month you reach FRA.)

Medicare beneficiaries are also affected. A "hold harmless" provision in the Social Security Act protects most Social Security beneficiaries from increases in their Medicare Part B premium when there is no Social Security COLA. However, about 30% of Medicare beneficiaries are not protected by this provision, including those subject to income-adjusted Part B premiums, those who are enrolled in Medicare but not receiving Social Security benefits, and those who are newly entitled to Medicare.\* If you fall into one of these groups, you may pay a substantially higher Medicare Part B premium when no COLA is payable.

### Putting COLAs in perspective

As important as COLAs are, they are still vulnerable to cutbacks. For example, pension plans that are underfunded may view reducing COLAs as a relatively simple way to cut costs, and some plans have attempted to eliminate COLAs altogether.

Consider taking additional measures to account for the effect of long-term inflation. For example, use realistic inflation and investment return assumptions when planning for retirement, maintain a diversified portfolio that reflects your time horizon and tolerance for risk, and consider investments that have historically held their own against inflation.





### **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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## What do I need to do to create a will?

A will is a legal document that is generally used to describe how you want your estate to be distributed after your death. It might also be used to name an executor for your estate or a guardian for your minor children. It is generally a good practice to name backup beneficiaries, executors, and guardians just in case they are needed. Even though it's not a legal requirement, a will should generally be drafted by an attorney.

In order to make a will, you must be of legal age (18 in most states). You must also understand what property you own, who the family members or friends it would seem natural to leave property to are, and who gets what under your will.

Generally, a will is a written document that must be executed with appropriate formalities. You should sign the document (or direct someone else to sign for you in your presence). The will should also be signed by at least two witnesses who are of legal age and understand what they

are witnessing; some states require three witnesses. The witnesses should not benefit from any provisions in the will. Some states also require that a will be notarized.

Some states allow a will that is entirely in your handwriting, known as a "holographic" will. Some states allow a "nuncupative" will, which is an oral will you dictate during your last illness, before witnesses, that is later converted to writing.

Note that certain property is not transferred by a will. For example, property you hold in joint tenancy or tenancy by the entirety passes to the surviving joint owner(s) at your death. Also, certain property (e.g., life insurance, qualified retirement plans, IRAs, Totten Trust accounts, Payable on Death accounts, Transferrable on Death accounts) passes directly to the designated beneficiary at your death, bypassing the probate process.

Your will does not take effect until you die. You can create a new will or revoke or amend an existing will up until your death.



## How do I change or revoke a will?

Your will does not take effect until you die. You can create a new will or revoke or amend an existing will up until your death.

A will remains valid until properly revoked or superseded. Revoking your will must be done very carefully. Most state laws require that the will be revoked by a subsequent instrument (a new will) or by a physical act (e.g., destroying or defacing it). This means the will must either be burned, torn, or canceled with the intent to revoke. You might, for example, write REVOKED across the will and sign and date the revocation.

You can amend (change) your will by executing a codicil. A codicil is a separate, written, and formally executed document that becomes part of your will. More specifically, a codicil is a supplement or addition to a will that explains, modifies, or revokes a previous will provision or that adds an additional provision. A codicil generally should be used only for minor changes to your will. You should execute a new

will if there are many changes or a major change.

A codicil should generally be executed with the same formalities as required for a will. In general, the codicil must be signed, dated, and witnessed in accordance with the laws of the appropriate state.

The codicil should be attached to the will it is amending. Be sure to draft, execute, and attach a copy of the codicil to each copy of your will.

Although a new will usually must be contested in its entirety, some states will allow a codicil to be contested on its own. If it is found to be invalid, only the changes contained in the codicil will be voided and the remaining will provisions remain valid.

Some states provide that provisions in a will may be revoked automatically upon marriage or divorce. It is generally a good practice to review your will and make changes as needed upon marriage or divorce, or for any other major changes in your life.

