



# Duane's Capital Ideas

## *Strengthening your financial future*

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Life is not measured by the number of breaths we take, but by the number of moments that take our breath away.

Enjoy the little things in life...for one day you will realize they were the big things.

Live is such a way that if anyone should speak badly of you no one would believe it.

We do not remember days, we remember moments.

It's not that we plan to fail, it's just that we fail to plan.

### June 2011

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## Net Price College Calculators



In the world of higher education, it's common to hear industry experts say that few students attending college pay full "sticker price," which is the official version of a college's total costs. Yet with nothing else to go on,

many students end up basing their college search, and ultimate school selection, on just that--pure sticker price. But this may be about to change.

The Higher Education Act of 2008 requires colleges to install "net price" calculators on their websites by the fall of 2011. "Net price" is what a student actually pays to attend a college, after subtracting merit aid and need-based grant aid from the sticker price. The government's intent in mandating net price calculators is to provide students with a more accurate picture earlier in their college search of what they will likely need to pay at specific colleges based on their own financial and academic circumstances.

### The problem

Each year, colleges publish their sticker prices on their websites and written materials. In a typical scenario, a college's sticker price may cause a prospective student (and his or her parents) to cross that college off the list early in the selection process, even though the student may have had a very good chance of receiving merit or need-based grant aid that would have resulted in a much lower net price.

This scenario is likely to play out more frequently as more colleges surpass the \$50,000 mark. According to the Chronicle of Higher Education, 100 colleges charged \$50,000 or more for tuition, fees, room, and board in 2010/2011. And more colleges will join their ranks next year if costs increase at the typical rate of about 5% per year.

### The net price difference

The idea behind net price calculators, which are expected to take about 15 minutes to complete, is to give students information at the beginning

of their college search about the merit and need-based aid they are likely to receive from a particular college based on the student's own financial and academic position and the college's specific criteria for awarding grant aid. The intended result is a closer estimate of the true costs of attending a specific college, as compared to the figures provided by a general college cost calculator or the federal government's aid application, the FAFSA, which provides families with their expected family contribution but does not take into account the aid awarding criteria of individual colleges.

In the typical financial aid cycle, high school students don't find out about their net price costs (and out-of-pocket costs) until spring of senior year, when colleges send out their financial aid award letters to accepted students. But by then, it's too late to plan. The hope is that by using a net price calculator much earlier in the process, students can make more informed decisions.

**Tip:** "Net price" cost is different than "out-of-pocket" cost. Net price equals sticker price minus merit and need-based grant aid, while out-of-pocket cost equals net price minus work-study and federal student loans.

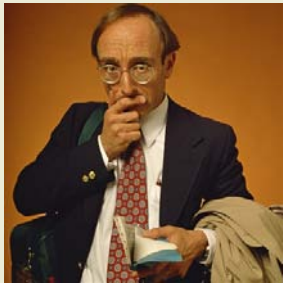
### The calculator source

One final thing to consider: The federal government has created a net price calculator template that colleges can use on their websites to meet the calculator requirement. However, the early buzz from industry experts is that the government's "one-size-fits-all" calculator template doesn't always provide an accurate estimate of net price, especially for colleges that distribute a large amount of scholarships and merit aid. Rather, a calculator that is specifically tailored to a college's own aid awarding and packaging criteria is likely to offer a more accurate net price estimate. So if you run some numbers on a net price calculator, consider asking the college if they developed it or if they are using the federal government's calculator template.

## Deciphering Health Savings Vehicles



***Beginning January 1, 2011, for HSA, MSA, FSA, and HRA programs, a drug or medicine is considered a qualified medical expense only if it is obtained with a prescription, or is insulin.***



***Effective January 1, 2013, contributions to a flexible spending account will be limited to \$2,500 per year, increased annually by cost-of-living adjustments.***

Health savings accounts (HSAs), Archer medical savings accounts (MSAs), health reimbursement arrangements (HRAs), and flexible spending arrangements (FSAs) are all personal health accounts that may help you control your health-care costs. But trying to figure out what's what can be confusing. Here's a brief description of each type of account, including some of their major features and benefits.

### **MSAs/HSAs**

As of January 1, 2008, the MSA program expired and no new MSAs can be established, although if you already participate in an MSA, you can continue to receive contributions. HSAs have generally taken the place of MSAs because of their greater flexibility and options. In fact, in most instances you can roll over an existing MSA into an HSA. MSAs and HSAs are set up in a trust account with a financial entity. Contributions made through your employer are pretax dollars (or you can contribute to the account directly and deduct the contribution), no tax is due on funds in the account, or on any earnings until withdrawn, and if funds are used for qualified medical expenses, the withdrawals are not taxed. However, account withdrawals that aren't used for qualified medical expenses are subject to a tax penalty of 20%, in addition to regular income tax. Your account is portable, meaning if you change employers or leave the workforce, you can keep the account. To be eligible, you must be insured by a high deductible health plan (HDHP) that you maintain (if self-employed) or that's provided through your employer.

However, there are also differences between MSAs and HSAs. Generally, anyone with an HDHP can participate in an HSA. But to qualify for an MSA, you must have been either an employee of a company that employs 50 or fewer people, or be self-employed (or the spouse of such an employee or self-employed person). With an HSA, contributions can be made by you, your employer, or anyone else on your behalf within the same plan year. But MSA contributions can only be made by either your employer or yourself, but not both, in the same plan year. Contribution amounts also differ. In 2011, maximum HSA contributions are limited to \$3,050 for single HDHP coverage and \$6,150 for family HDHP coverage. MSA contributions can be up to 75% (65% if you participate in a self-only plan) of the annual deductible of your HDHP, but no more than your annual earnings from employment.

### **FSAs**

If you don't participate in an HDHP, you still can set money aside for uninsured medical expenses through an employer-established FSA. Unlike an HSA, you must be an employee of the employer providing the FSA in order to participate (self-employed persons are not eligible and certain limitations may apply if you are a highly compensated participant or key employee). Pretax contributions can be made by either you, your employer, or both of you (except employer contributions used to pay long-term care premiums must be included in income). You determine how much money you want deposited each year up to the plan's maximum dollar amount or percentage of compensation; funds in the account are not subject to tax; and distributions are tax free if used to pay for qualified, unreimbursed medical expenses you've incurred (no advance payments for anticipated expenses). Unlike HSAs, if you leave your employer, you can't keep the money in the account or take it with you to another employer (it's not portable). Also, what you don't spend on medical expenses by the end of the plan year is forfeited and not available the following year (i.e., you must use it or lose it).

### **HRAs**

Like FSAs, HRAs are only available to employees, not to self-employed individuals. And HRAs must be funded solely by an employer; you can't contribute directly to the account. The terms of the HRA are generally determined by the employer. For example, your employer's plan may or may not require you to have health insurance in order to participate. The plan sets the maximum amount of contributions, and determines whether a credit balance in the account can be rolled over from year to year, and if so, how much of the account can be rolled over. But contributions and reimbursements for qualified medical expenses are tax free. Reimbursements can be made to current and former employees, including spouses and dependents of employees and deceased employees. However, if the plan allows for any distribution to you or anyone else (e.g., spouse, dependent, estate at your death) for other than reimbursement for qualified medical expenses, then any distribution, whether for qualified medical expenses or not, is included in gross income.

# The New Face of Socially Responsible Investing



*Though past performance is no guarantee of future results, you should make sure your expectations (both financial and social) are realistic and in line with what you hope to achieve.*

Feeling strongly about the societal benefit or harm your money might be supporting doesn't mean you have to forgo pursuing a return on your investments. Socially responsible investing allows you to further both your own economic interests and a greater good.

The concept of putting your money where your mouth is first gained widespread attention during the 1970s, when such highly charged political issues as the Vietnam War and apartheid in South Africa led some investors to try to make sure their money didn't support policies that were counter to their beliefs. Since then, a wide variety of investment products, such as socially conscious mutual funds, have been developed to help people invest in ways consistent with a personal philosophy. However, individuals aren't the only ones to adopt responsible investing principles; many colleges and universities, government pension and retirement funds, and religious groups do so as well.

There are many approaches to what may also be known as mission investing, double- or triple-bottom-line investing, ethical investing, socially conscious investing, green investing, sustainable investing, or impact investing.

## Screening potential investments

This is perhaps the best known aspect of socially responsible investing: evaluating investments based not only on their finances but on their social, environmental, and even corporate governance practices. The process may be negative, eliminating companies whose products or actions are deemed contrary to the public good. Examples of companies that are frequently excluded from socially responsible funds are those involved with alcohol, tobacco, gambling, defense, and those that contribute to environmental pollution or that have significant interests in countries considered to have repressive or racist governments.

However, as socially responsible investing has evolved, the screening process has become increasingly positive, using screens to identify companies whose practices actively further a particular social good, such as protecting the environment. For example, green technology that can help address environmental problems has attracted the interest of many investors who see not only a social good but an opportunity for profit.

## Shareholder activism

Both individual and institutional shareholders have become increasingly willing to pressure corporations to adopt socially responsible practices. In many cases, having a good social

record can enhance business, making a company more attractive to investors. Shareholder advocacy can involve filing shareholder resolutions on such topics as corporate governance, climate change, political contributions, environmental impact, and labor practices. Such activism got a boost from the SEC when it adopted the so-called "say on pay" rule as part of the Dodd-Frank financial reforms. As of April 2011, companies over a certain size must allow shareholders a vote on executive pay at least once every three years. Though the vote is nonbinding, it could give institutional investors a stronger hand in advocating for other interests.

## Community investing

Still another approach involves directing investment capital to communities and projects that may have difficulty getting traditional financing. Investors provide money that is then used to make or guarantee loans to organizations that help traditionally underserved populations with challenges such as gaining access to affordable housing, finding jobs, and receiving health care.

## Impact investing

A recent development focuses not only on investment returns and social benefit, but on measuring and managing performance in both of those arenas. So-called "impact investing" aims not only to minimize negative impact and enhance social good, but to do so in a way that maximizes efficient use of the resources involved, using business-world methods such as benchmarking to compare returns and gauge how effectively an investment fulfills its goals. In fact, some have made a case for considering impact investing an emerging alternative asset class, since such investments may not be highly correlated with traditional assets such as stocks or bonds.

## Know your goals

When investing for the greater good, make sure your expectations are clear and realistic. "The public good" may be defined differently by every investor. Also, many socially responsible funds achieve solid financial returns; others may not.

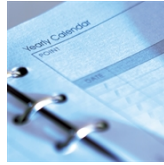
**Note:** Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which can be found in the prospectus available from the fund; read it carefully before investing.

## Ask the Experts

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### Can the IRS waive the 60-day IRA rollover deadline?

If you take a distribution from your IRA intending to make a 60-day rollover, but for some reason the funds don't get to the new IRA trustee in time,

the tax impact can be devastating. In general, the rollover is invalid, the distribution becomes a taxable event, and you're treated as having made a regular, instead of a rollover, contribution to the new IRA. But all may not be lost. The 60-day requirement can be automatically waived in some cases, and the IRS has the discretion to waive the rule in others. The 60-day requirement is automatically waived if *all* of the following apply:

- The financial institution receives the funds on your behalf before the end of the 60-day rollover period
- You followed all the procedures set by the financial institution for depositing funds into an IRA within the 60-day period (including giving instructions to deposit the funds into an IRA)
- The funds are not deposited into an IRA within the 60-day rollover period solely because of an error on the part of the financial institution



### What is the IRA one-rollover-per-year rule?

The one-rollover-per-year rule is a little known provision that says you can only make one rollover from a particular IRA to any other IRA in any

12-month period. A violation of the rule can have serious adverse tax consequences. Luckily, it's a problem that's very easy to avoid.

Here's how the IRS states the rule: "If you make a tax-free rollover of any part of a distribution from an IRA, you cannot, within a 1-year period, make a tax-free rollover of any later distribution from that same IRA. You also cannot make a tax-free rollover of any amount distributed, within the same 1-year period, from the IRA into which you made the tax-free rollover. The 1-year period begins on the date you receive the IRA distribution, not on the date you roll it over to an IRA."

This is best understood with an example. Assume you have three IRAs, A, B, and C. On January 1, 2011, you receive a distribution from IRA A and, within 60 days, you roll that distribution over to IRA B. The one-rollover-per-year rule says that any other distribution from IRA A that you receive before January 1, 2012, can't be rolled over. Similarly,

- The funds are deposited within 1 year from the beginning of the 60-day rollover period
- It would have been a valid rollover if the financial institution had deposited the funds as instructed

If you don't qualify for an automatic waiver, you can apply to the IRS for a discretionary waiver. The IRS may waive the 60-day requirement where failure to do so would be against equity or good conscience, such as in the event of a casualty, disaster, or other event beyond your reasonable control. The IRS will consider all relevant facts and circumstances, including:

- Whether errors were made by the financial institution (in addition to those described under automatic waiver, above)
- Whether you were unable to complete the rollover on a timely basis due to death, disability, hospitalization, incarceration, restrictions imposed by a foreign country, or postal error
- Whether you used the amount distributed
- How much time has passed since the date of distribution

any distribution from IRA B that you receive before January 1, 2012, can't be rolled over. You can, however, receive a distribution from IRA C and roll it over to any other IRA without restriction.

What happens if you violate the rule? The disallowed rollover is taxed as a distribution to you; if you're not age 59½, the additional 10% early distribution penalty may apply; you're treated as having made a regular, rather than rollover, contribution to the receiving IRA, so a 6% excess contribution penalty may apply; and you may be subject to additional penalties if you fail to report the "rollover" as a distribution on your income tax return.

So how do you avoid the problem? It's easy. Use direct transfers instead of 60-day rollovers. The rule doesn't apply when IRA funds are transferred directly from one trustee to another trustee (you never receive the funds). The rule also doesn't apply to conversions of traditional IRAs to Roth IRAs. So you can make as many trustee-to-trustee transfers, or Roth IRA conversions, as you like in any year--the one-rollover-per-year rule will not apply.