



Jim Trull

**Keystone Financial Partners**  
116 New Edition Court  
Cary, NC 27511

**Jim Trull, CLU, ChFC, CLTC, CFP®**,  
CERTIFIED FINANCIAL PLANNER™  
Professional

**Christopher Walsh,**  
Financial Planning Assistant

**Tami Hollingsworth,**  
Client Service Assistant

**In this issue:**

Summer News & Updates

529 College Savings Plans vs. Roth IRAs

10 Financial Terms Everyone Should Know

What is the premature distribution tax?



Summer 2010

## Summer News & Updates

Summer is finally here and the warm temperatures are upon us. We hope you have some fun summer travel plans to visit new or favorite places, friends or family. In this newsletter, you'll find information on happenings with Keystone Financial Partners this summer.

### Jim Trull Celebrates his 30 Year Anniversary in the Financial Services Business

It's hard to believe but 30 years ago on May 18th, Jim Trull began his career in the financial services business. It gives us great pride that many of our clients have worked with us for over 25 years now. We have been able to watch many of you start your families, raise and educate your children and transition from your own working career to a fulfilling retirement. We have enjoyed helping you make smart choices with your money as you have moved through these phases of your life. Without loyal clients and the many referrals and introductions we have received, our firm would not have enjoyed the success and longevity that it has. We thank you for your continued support.

### Durham Bulls Event

We had a record turnout of over 100 clients and guests at our 4th Annual Durham Bulls Client Event. Unfortunately due to limited space, we had to turn away over 30 people. The food was great, the game was exciting and everyone had a great time. Be sure to check out our website for photos from the event. Thanks to everyone who was able to join us. Be sure to RSVP early for next year's event!

### Contact Us by Phone:

Local: (919) 463-0018  
Toll Free: (877) 400-2899  
FAX: (919) 463-0064

### Find Us on the Web:

[www.keystonefinancialpartners.com](http://www.keystonefinancialpartners.com)

### Welcome Christopher Walsh

We're proud to announce the addition of Chris to our service team. Chris joined us in April as Karen's replacement, who left to start her family and be a full-time stay at home mom. He recently relocated from Albany, NY to North Carolina. Chris worked in a similar role for an investment management firm for 5 years before joining Keystone. See the enclosed insert for more details about Chris' background and experience.

### Senior Resource Alliance

Almost five years ago, Jim founded the Senior Resource Alliance of the Triangle. This group is designed to offer trusted advisors to provide solutions to many of the issues that we face as we age. Many of you have utilized the services of these advisors for yourself or a parent. We now have over 30 different members in the Alliance. We encourage you to visit the SRAT website at [www.SRATriangle.com](http://www.SRATriangle.com) and review the different members and their respective specialties. There is a good chance that you may need their services if not now then sometime in the future. Be sure to ask about the SRAT when you meet with Jim for your next review.

We wish everyone a wonderful summer. As always, if you have any questions or we can assist you in any way, please don't hesitate to contact us!

### Contact Us by Email:

Jim: [jtrull@keystonefinancialpartners.com](mailto:jtrull@keystonefinancialpartners.com)  
Chris: [cwalsh@keystonefinancialpartners.com](mailto:cwalsh@keystonefinancialpartners.com)  
Tami:  
[thollingsworth@keystonefinancialpartners.com](mailto:thollingsworth@keystonefinancialpartners.com)



## 529 College Savings Plans vs. Roth IRAs

According to an article in *The Wall Street Journal* ("More Parents Are Becoming 529 Dropouts," November 11, 2009), after the 2008/09 market collapse, some investors--and financial advisors--have reduced their reliance on 529 plans. Some of this pullback can be attributed in part to a broader retreat from the stock market as a whole. But another part can be attributed to parents who have opted to trade the tax benefits of 529 plans for college savings vehicles that don't have a "must-be-used-for-college" restriction. And as parents seek to save for their own retirement too, one such vehicle is a Roth IRA. So, just how does a favorite of the college savings world, a 529 college savings plan, stack up to a favorite of the retirement savings world, a Roth IRA, as an education-funding vehicle?

### Tax benefits

Both 529 college savings plans and Roth IRAs offer federal tax-free earnings if certain conditions are met (and most states follow this tax treatment), but only 529 plans offer the possibility of a state tax deduction too.

For 529 plans, earnings are tax free at the federal level if the distribution is used to pay the beneficiary's qualified education expenses--a broad term that includes tuition, fees, room and board, books, and computers--at any accredited college in the United States or abroad. If the distribution is used for any other purpose, earnings are subject to income tax and a 10% federal penalty tax.

For Roth IRAs, earnings are tax free at the federal level if the distribution is "qualified." A distribution is qualified if a five-year holding period requirement is met and one of the following conditions is met: (1) you are at least age 59½; or the distribution is made (2) due to a qualifying disability; (3) to pay certain first-time homebuyer expenses; or (4) by your beneficiary after your death.

If you are younger than age 59½ and you have a taxable distribution, you will also pay a premature distribution tax (also called an early withdrawal penalty) equal to 10% of the earnings portion of the distribution. But there are exceptions to this penalty, and one is if the money withdrawn is used to pay your child's qualified higher education expenses.

Bottom line: if you withdraw money before age 59½ to pay your child's college expenses, you'll generally owe income tax on the earnings, but not an early withdrawal penalty. However, you

may not end up owing income tax on the earnings, because Roth IRA distributions generally aren't taxed as earnings until the principal has been fully withdrawn. (By contrast, a distribution from a 529 plan is considered part principal and part earnings.)

### Financial aid

There is an important difference here. Under federal financial aid rules, 529 plans are counted as a parent asset (if the parent is the account owner), and 5.6% of all parent assets are deemed available for college costs. By contrast, the federal aid methodology doesn't count retirement assets in determining aid eligibility. So a Roth IRA won't impact the amount of federal aid your child may be eligible for. However, although Uncle Sam doesn't count retirement assets, colleges typically do when awarding their own institutional aid.

### Investment choices

Roth IRAs have the edge here--you can choose from a wide range of investments to fund your Roth IRA, and you can buy and sell investments whenever you like. But with a 529 plan, you are limited to the investment options offered by the plan. If you're unhappy with the investment performance of the options you've chosen, most plans let you change the investment options for your future contributions at any time, but for existing contributions, you can only change investment options once per year (twice per year in 2009 only). In 2008 and 2009, this restriction proved costly for many 529 account owners: having reached their limit on investment changes for the year, they were unable to make further changes in response to deteriorating market conditions.

### Lump-sum contributions and eligibility

If you have a lump sum to contribute, 529 plans allow individuals to gift up to \$65,000 in 2010 (\$130,000 for married couples) and avoid gift tax if certain conditions are met. By contrast, Roth IRAs have a contribution limit in 2010 of \$5,000 (\$6,000 for individuals age 50 or older). And your ability to contribute to a Roth IRA depends on your income level. But anyone can contribute to a 529 plan--there are no restrictions based on income.

### Bottom line

Whether a Roth IRA or a 529 college savings plan is best for your college savings depends on your personal circumstances and the factors discussed here.

### Note on 529 plans

*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, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.*

## 10 Financial Terms Everyone Should Know

Understanding financial matters can be difficult because of the jargon used. Becoming familiar with these ten financial terms may help make your financial picture clearer.

### 1. Time value of money

The time value of money is the concept that money on hand today is worth more than the same amount of money in the future because the money today can be invested to earn interest. *Why is it important?* Understanding that money today is worth more than the same amount in the future can help you evaluate and compare investments that offer returns at different times.

### 2. Market volatility

Market volatility measures the rate at which the price of a security moves up and down. If the price of a security historically changes rapidly over a short period of time, its volatility is high. Conversely, if the price of a security rarely changes, its volatility is low. *Why is it important?* Understanding volatility can help you evaluate whether a particular investment is suited to your investing style and risk tolerance.

### 3. Inflation

Inflation reflects any overall upward movement in the price of goods and services in the economy. *Why is it important?* Because inflation generally pushes the cost of goods and services higher, any estimate of how much you'll need in the future--for example, how much you'll need to save for retirement-- should take into account the potential impact of inflation.

### 4. Asset allocation

This strategy means spreading investments over a variety of asset categories, such as equities, cash, bonds, etc. *Why is it important?* How you allocate your assets depends on a number of factors, including your risk tolerance and your desired return. Diversifying your investments over asset classes can potentially help you manage risk and volatility.

### 5. Net worth

Net worth is what your total holdings are worth after subtracting all of your financial obligations. *Why is it important?* Your net worth will probably fund most of your retirement years. Therefore, the faster and bigger your net worth grows, the earlier and more comfortably you will be able to retire. Once retired, preserving your net worth to last through your retirement years is your goal.

### 6. Five C's of credit

These are character, capacity, capital, collateral, and conditions. They're the primary elements lenders evaluate to determine whether to make you a loan. *Why is it important?* With a better understanding of how your banker is going to view and assess your creditworthiness, you will be better prepared to deliver appropriate information to obtain the loan you want or get a better interest rate.

### 7. Sustainable withdrawal rate

Sustainable withdrawal rate is the maximum percentage that you can withdraw from an investment portfolio each year to provide income that will last, with reasonable certainty, as long as you need it. *Why is it important?* Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio.

### 8. Tax deferral

Tax deferral refers to the opportunity to pay income taxes in the future for investment interest and appreciation earned in the current year. *Why is it important?* Tax-deferred vehicles like IRAs and annuities produce earnings that are not taxed until withdrawn. This allows those earnings to compound, further adding to potential investment growth.

### 9. Risk/return trade-off

This concept holds that, in order to achieve a higher personal investment return, you must be willing to accept greater risk. *Why is it important?* When considering your investments, the goal is investing to get the greatest return for the level of risk you're willing to take, or to minimize the risk involved in trying for a given return.

### 10. Annuity

An annuity is a contract where you pay money to an insurance company in return for the insurer's promise to pay it back, with interest, in the future. *Why is it important?* You can supplement other retirement savings with tax-deferred annuity funds, and you can add to your retirement income with payments from your annuity for a fixed period of time or for the rest of your life.



#### Ten more terms to look up

- Equity
- Gross Domestic Product
- Working capital
- Recession
- Triple net lease
- Net income
- Roth IRA
- Earned income
- Debt/equity ratio
- P/E ratio



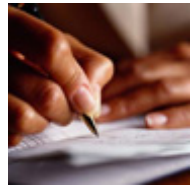


Jim Trull

The accompanying pages have been developed by an independent third party. Commonwealth Financial Network is not responsible for their content and does not guarantee their accuracy or completeness, and they should not be relied upon as such. These materials are general in nature and do not address your specific situation. For your specific investment needs, please discuss your individual circumstances with your representative. Commonwealth does not provide tax or legal advice, and nothing in the accompanying pages should be construed as specific tax or legal advice. Securities and advisory services offered through Commonwealth Financial Network, Member FINRA/SIPC.

Prepared by Forefield Inc,  
Copyright 2010

## Ask the Experts



### What is the premature distribution tax?

Taxable distributions you receive from an IRA, 403(b), 401(k), or qualified employer plan before age 59½ are generally referred to as premature distributions, or early withdrawals.

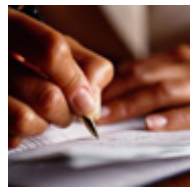
To discourage early withdrawals, they're subject to a 10% federal penalty tax (and possibly a state penalty tax) in addition to any federal and state income taxes. This 10% penalty tax is commonly referred to as the premature distribution tax. Not all distributions before age 59½ are subject to this penalty, however.

Here are the most important exceptions:

- Distributions due to a qualifying disability
- Distributions to your beneficiary after your death
- Distributions up to the amount of your tax-deductible medical expenses
- Distributions made pursuant to a qualified domestic relations order (QDRO)

- Qualified reservist distributions
- Distributions from an IRA (but not an employer plan) to pay first-time homebuyer expenses (up to \$10,000 lifetime)
- Distributions from an IRA (but not an employer plan) to pay qualified higher education expenses
- Distributions from an employer plan (but not an IRA) after separation from service at 55 or older
- Certain distributions from an IRA (but not an employer plan) while you're unemployed up to the amount you paid for health insurance premiums
- Amounts levied by the IRS
- Distributions that qualify as a series of substantially equal periodic payments (SEPPs)

If you must take a distribution from your IRA or employer plan before age 59½, be sure to determine if one of these exceptions applies to you.



### What is the "SEPP" exception to the premature distribution tax?

Taxable distributions you receive from an IRA or 401(k) plan before age 59½ are subject to a 10% early withdrawal penalty unless an exception applies. One important, but sometimes overlooked, exception is for SEPPs--substantially equal periodic payments.

SEPPs are amounts you withdraw from your IRA or employer plan over your lifetime (or life expectancy) or the joint lives (or joint life expectancy) of you and your beneficiary. To avoid the 10% penalty, you must calculate your lifetime payments using one of three IRS-approved distribution methods and take at least one distribution annually.

You can take advantage of the SEPP exception at any age. But payments from an employer plan must begin *after* you separate from service.

Even though SEPPs are initially determined based on lifetime payments, you can change--or even stop--the payments after five years, or after you reach age 59½, whichever is

later. For example, you could start taking SEPPs from your IRA at age 50, without penalty, and then, if you no longer need the funds, reduce (or stop the payments altogether) once you reach age 59½.

But be careful--if you "modify" the payments before the required waiting period ends, the IRS will apply the 10% penalty tax (plus interest) to all taxable payments you received before age 59½ (unless the modification was due to death or disability).

If you have more than one IRA, you can take SEPPs from just one of your IRAs or you can aggregate two or more of your IRAs and calculate the SEPPs from the total balance. You can also use tax-free rollovers to ensure that the IRA(s) that will be the source of your periodic payments contain the exact amount necessary to generate the payment amount you want based on the IRS formulas.

SEPPs can be complicated--especially the modification rules. But taking the time to understand this important financial planning tool can be well worth the effort.