Financial Sense

fall 2011

making sense of your financial matters

Managing Your Checkbook in the Modern Age

Your checkbook is like an old familiar friend – one you've known and trusted for years. But just as your relationships have evolved in recent years (as you chat with loved ones on Skype or connect with an old friend on Facebook), so should your relationship with your checkbook. Here are some reasons why you might want to turn to technology to manage your checking account.

1. **It's greener.** Receiving e-Statements instead of paper statements is a great way to save a few trees. Plus, you will receive e-Statements faster than their paper counterparts, and you don't have to find the room to file them; they are already neatly organized and accessible via our online banking service.

2. **It's more up-to-date.** Ever balance your checkbook, then compare your ledger to your statement and find you made a mathematical error? Simply log on to your StonehamBank online banking account to double check your transactions. They usually appear within minutes, so you'll always be able to quickly reconcile your account.

Why Online Banking Is Safer

Contrary to what you might believe, online banking is actually safer than doing things the old-fashioned way.

- Eliminating paper statements reduces the chance of someone stealing your identity from a piece of mail.
- Using online bill pay reduces the number of checks you write, so you may be less likely to have one lost or stolen in the mail stream.
- Your accounts are protected with multifactor authentication and a secure website.

3. **You'll be more organized.** Take advantage of account alerts, which can notify you when a transaction posts to your account, when your balance goes above or below a certain amount or when payments are due. You can also use online bill pay to stay on top of your finances – schedule payments in advance and keep everything organized in one spot.

Ready to modernize your checking account? Give us a call at **888-402-2265** or visit *www.stonehambank.com* to learn more and get started!

Snippets

Spotlight on … Pumpkins

- Fruit or vegetable? Pumpkins are fruits and are part of the gourd family, along with squash and cucumbers.
- The "pumpkin capital of the world" is Morton, Ill. It holds its annual Morton Pumpkin Festival in mid-September.
- Eighty percent of the pumpkin supply in the United States is available in October, just in time for Halloween and Thanksgiving.
- Irish immigrants brought the tradition of carving jack-o'-lanterns to the United States hundreds of years ago. They used turnips or potatoes in their native country, but found the American pumpkin was larger and easier to carve.
- Early United States settlers made pumpkin pie by filling a hollowed out pumpkin shell with milk, honey and spices, then baking it.
- Pumpkins are high in fiber and a good source of vitamin A, vitamin C, potassium and iron. They are "gourd" for you!

Sources: History.com, Pumpkin-patch.com, Pumpkinnook.com, Morton Chamber of Commerce.

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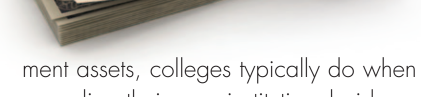

529 College Savings Plans vs. Roth IRAs

According to an article in *The Wall Street Journal*, 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 affect 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 2011 ($130,000 for married couples) and avoid gift tax if certain conditions are met. By contrast, Roth IRAs have a contribution limit in 2011 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. To discuss these options and more, call 781-481-5832 to speak with our Infinex Financial Consultant, Jim Smyly.

Jim Smyly,
Financial Consultant

* Source: "More Parents Are Becoming 529 Dropouts," *The Wall Street Journal*, Nov. 11, 2009.

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