

MARKETLETTER

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Schoolhouse Finance Rocks! Dollars and Sense

Starting in the early 1970s, Schoolhouse Rock appeared on Saturday morning television with the goal of teaching concepts from grammar, history, science and math. In the 1990s, various money topics were added to the lineup. Although the series was aimed at young children, an episode or two on paying for college for those students would have been helpful.

Paying for college has two components, savings *for* college expenses and savings *of* college expenses. Both aspects require attention to detail. There

are a variety of ways to save, but not all of them will be right for you. Your Wayne Hummer professional can help select the way that makes the most sense (and, ideally, cents) for you.

The return on your investment is important. However, you must consider all factors, including how the savings method will affect financial aid. Some accounts are considered to be held in the name of the parents while others are considered to be in the name of the children. When it comes to applying for financial aid, that can make a difference.

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Securing Your Family's Future

As any good physician would recommend an annual check-up to ensure your physical well being, the same consideration should be given to your financial health. Your Wayne Hummer Professional, like a doctor, has the tools and resources to diagnose problems and recommend solutions.

Working side by side, we can create a customized plan for meeting your financial goals as you work to secure your family's future. Reviewing your life insurance policies is an important part of this process.

Although it is frequently overlooked, life insurance planning is an essential part of any comprehensive financial review. If you don't plan your life insurance needs, the result could be a waste of thousands of dollars on inappropriate or ineffective life insurance or, worse, financial hardship due to being under-insured.

If you already own life insurance, you should question whether or not you are getting the most out of your existing policies. Like all other investments, life insurance policies should be reviewed regularly.

Here are a few key questions to consider:

- When was the last time I reviewed my insurance policies?
- Have my family's needs (financial, health, lifestyle, etc.) changed since I originally purchased my policies?
- Does my existing life insurance provide adequate coverage for my family's needs?
- Are my policies competitive and cost effective given the recent improvements in pricing?

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Schoolhouse Finance!

Here are some considerations for deciding how you will save for education:

- What type of investments can the account hold?
- What are the fees associated with the account?
- How are the assets classified for financial aid purposes?
- Are withdrawals from the account considered as income to the recipient?
- What are the tax implications for contributions to and earnings in the account?



"We're talkin' 'bout dollars and sense, dollars and sense; Them green-back bills with the pictures of the Presidents. Since life is one experience that spares us no expense, Gotta use them dollars with a little bit of common sense."
Schoolhouse Rock – "Dollars and Sense"

- How is ownership of the assets in the account transferred to the student?
- What are the annual contribution limits for the account?
- What are appropriate uses for the funds withdrawn from the account?

Though we won't have a Schoolhouse Rock video to educate you, our Wayne Hummer Professionals can help identify which of the wide variety of education savings vehicles is best for you. Contact your Wayne Hummer Professional to discuss the options available. ■

Gifts to Children and Grandchildren

As the end of the school year draws near, you may be thinking about gifts to children and grandchildren.* Aside from the personal satisfaction you receive from making these gifts, there are also valuable tax and financial benefits. First, gifts to children and grandchildren reduce the size of your estate for estate-tax purposes, and yes, the estate tax is still with us until 2010 when it disappears for only one year, unless Congress acts to make the repeal permanent. In addition, you may save income taxes, because some or all of the income on the transferred property may be shifted to the child or grandchild. The way a gift is structured can make a big difference in both the tax consequences and the amount of control a child or grandchild has over the property and its income.

The simplest way to make a gift is to transfer stock, mutual fund shares, cash, or other property outright. But, here's the rub: if your child or grandchild is a

minor, he or she won't be able to transact any financial business with the gift without a court-appointed guardian. The guardian may not even be able to use the property to pay for college if the parents have adequate resources.

When the child or grandchild reaches the age of majority (18 to 25, depending on the state), the guardianship lapses and the child has complete control over the property. That raises another concern. Think about it -- how ready were you for such responsibility at age 20?

One benefit of an outright gift is that it clearly qualifies for the annual gift-tax exclusion (\$12,000, \$24,000 if your spouse also gives). But beware, the gift may be subject to the "kiddie" tax if it doesn't qualify for the minor's marginal tax rate.

One way to transfer property to a minor and avoid the hassle of a guardianship is to establish a custodial account under the Uniform Transfers to Minors Act (UTMA). With this type of

transfer, you set up an account for the benefit of a minor and name a custodian. The custodian must invest the funds and use them solely for the education, medical care, support and benefit of the minor.

A major advantage of a custodial account is simplicity. With a custodial account, there are no trusts and separate tax returns to prepare. In addition, the gift qualifies for the annual gift-tax exclusion, but may be subject to the aforementioned "kiddie" tax. Once again, after the child reaches the age of majority, the control over how the money is spent passes to the child or grandchild.

There are a variety of ways to make gifts to children and grandchildren. Other options include the utilization of a Minor's Trust or a Crummey Trust. You can also utilize accelerated gifting via 529 Plans for your child or grandchild's future education expenses. Choosing the best approach is not easy. Seek the advice of your Wayne Hummer Professional to help you.

* Gifts to grandchildren may be subject to the generation-skipping transfer tax (GST), which is repealed in 2010 (for one year only). If you are considering a trust for the benefit of a grandchild, you should discuss with your tax advisor steps to qualify for the annual GST exclusion in addition to the annual gift-tax exclusion.

Projecting Education Costs:

Utilizing Education Goals in our Comprehensive Financial Review

The cost of college is on the rise. Between 1977 and 2006 average general inflation was 4.35 percent, while average education inflation was 7.25 percent (College Money, 2006). At Wayne Hummer, we believe the best way to cope with rising college costs is to start saving and planning early. When it comes to funding an education, time really is money.

Our Comprehensive Financial Review is a sophisticated tool that can assist us in determining your investment

objectives including retirement, education and other goals. Within this process is a segment targeting the goals for the funding of your child's or grandchild's education. It asks for pertinent information of each child's education you may fund. However, what if you don't know all the answers? There are many pieces to this puzzle:

- Will your children attend a public or private university?
- What if my child takes five years to graduate?

- How much will it cost to send my child to my alma mater?
- How should I title my and my children/grandchildren's accounts?
- What about the cost of sending my child to a private high school?

Fortunately, the robust "engine" behind our Comprehensive Financial Review can help answer all of these questions, including each of your different "what if" scenarios. With the help of our professionals, you can change every variable infinitely, to help you arrive at the best solution. Once we have found the desired financial scenario for your education planning needs, a selection of the right type of savings vehicle should be chosen. These include 529 Plans, Coverdell Education Savings Accounts, and Custodial Accounts. Your Wayne Hummer Professional can help you choose the correct investment choice(s).

When it comes to saving for a child's future education costs, the time is now. For more information contact your Wayne Hummer Professional to find out how to put state-of-the-art tools, like our Comprehensive Financial Review, to work for you. ■

The Importance of an Education	
Average Earnings for Workers 18 and Over	
Education	Average Earnings
Advanced degree	\$74,602
Bachelors degree	\$51,206
High-school diploma	\$27,915
No diploma	\$18,734
U.S. Census Bureau, March 28, 2005	

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Securing Your Family's Future

Other considerations should include:

- Insurance company ratings (ability of company to pay a claim)
- Fund performance and investment flexibility (for policies with cash value)
- Adequate death benefits and desired beneficiaries

Whether or not you currently own life insurance, we can help. Wayne Hummer has strong relationships with many top-tier insurance companies to provide a wide range of quality solutions. To get started, contact your Wayne Hummer Professional and begin securing your family's future today. ■



Economic Outlook - 2nd Quarter

Trends Indicate 2007 Real GDP Annual Growth

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William B. Hummer
Chief Economist

After a dreary first quarter that depressed real GDP growth to only 1.3%, prospects are improving for a moderate recovery during the rest of the year.

Principle culprits in recent weakness were (1) the housing slump, which not only dampened construction activity, but reduced the amounts of cash homeowners could extract in mortgage credit, and (2) unexpected softening of consumer spending. News of sub-prime lending problems and foreclosures added to the gloom.

Early spring may have been the low point in the economic cycle. Growth of 2% or more is expected in the current quarter, increasing to a 3% rate by yearend. These are the reasons: a persistent global upturn, combined with weakness of the dollar in foreign exchange markets, is revitalizing U.S. exports and reducing the current account deficit. This contributes directly to faster GDP growth. Capital goods industries are prime beneficiaries, and factory activity is improving, as measured by the ISM index.

Payroll growth is expected to average 100,000-130,000 in months ahead, enough to keep unemployment below 5%. Combined with prospective gains in hourly compensation, this should trigger recovery in consumer spending from dismal first quarter levels.

Early spring may have been the low point in the economic cycle.

No major shift in Fed policy is foreseen in nearby months. Although core inflation (excluding food and energy) has subsided, this favorite measure of the policy makers is slightly above its targeted ceiling. Officials have commented on the “stickiness” of core inflation, but hope for slower growth to erase the problem.

Although the Fed is not expected to increase short term rates soon, the European Union, U.K. and Japan may do so. This implies a still-weaker U.S. dollar by the end of 2007.

After more than three consecutive years of double digit corporate earnings gains, a return to single digit improvement is probable this year. Better-than-expected first quarter results indicate that profit margins will remain healthy. ■

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The tax planning information contained in this issue may answer some questions, but is not intended as a comprehensive analysis of the topic. Periodically, Wayne Hummer provides information to clients in the area of planning. Such services should not be relied upon as the only source of information, competent tax and legal advice should always be obtained.

Although summer is just heating up, August will quickly be here and thoughts will turn back to school. Talk to your Wayne Hummer Professional about Education Planning for your children or grandchildren.

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