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Education: Failure is the Cause of Society's Ills and Success is its Salvation

BOB FRAGASSO, CFP®, AIF®
Chairman and Chief Executive Officer

The United States suffers from problems that seem to have their roots in our failure to properly educate our youth. While this is a generalization, please stay with the thought to see if it has some validity. Consider that we have a high school dropout rate that ranges from 8 percent to 16 percent depending on race, ethnicity and state of residence. And those possessing only a high school diploma have just an entrance certificate to higher education, the military or trades training, as most high school curriculums do not prepare graduates for immediately productive employment in our sophisticated economy. Beyond that, the current unemployment rate for college graduates who do not possess specific, marketable skills is also high. This places a heavy emphasis on planning for post secondary education and training by students and their parents. And it requires proper preparation to provide funding for that educational opportunity.

Students and their parents must seek information about and exposure to different career opportunities. Think about why a student decides to become, for example, an electrical engineer. There was something about that activity that fired the imagination. But was the decision made based on a thorough evaluation of the skills needed, duties to be performed, expected compensation and later, work environment? Often times, the budding architect or engineer changes course mid-college into a different field with the attendant loss of time, tuition money and having acquired the feeling of failure. The failure was that of investigation and preparation, not of the individual. How much time was spent learning about and visiting in the desired field? What mentoring was obtained to help guide the student? What psychological and interest testing was performed? Probably not enough might be the answer. Do you really want to throw money at wishes and dreams or at solidly conceived plans for the future? It's probably the latter, and we commend you for that insight. Finally in your investigation, don't dismiss skilled trades training as this economy and that of the future will demand highly educated skilled workers as well as careers in the military and other public service.

Once having selected the course of study at a university, college, community college or skilled trade school, begin planning for the funding of that experience. We have taught for years in our financial education courses that prefunding education costs is cheapest as it puts the power of time, compounded returns and tax burden shifting to work for you, if it is done properly.

So read on through this newsletter and talk with one of our financial advisors to seek guidance in this all important continuation of your family into and through the next generation. Your children and your grandchildren will thank you.

Saving for College the Right Way

ANDREI VOICU, CFP®, AIF®
Chief Investment Officer

Stagnant wages, runaway tuition costs and the growing burden of student loans have led many to believe the value of a college diploma is shrinking. A college degree is not mandatory to have a fulfilling life and successful career. Yet for the typical American, college still makes sense.

According to the U.S. Department of Labor Statistics illustrated in the chart below, workers with bachelor's degrees earned significantly more than workers with high school diplomas. In 2013, the median earnings for workers with bachelor's degrees were $57,616 vs. $33,852 for high school graduates. The unemployment rate was 4.0 percent for college graduates and 7.5 percent for high school graduates. A simple "back of the envelope" calculation shows that over an average 40 years-long career, the earnings differential may amount to nearly $1 million. In a world of increased global competitiveness, we can expect such trends to continue.

Today the average estimated cost of a four year education in a public university is $76,739[1]. The average private school will set you back $165,806[2]. As expensive as college has become, on average, the earnings advantage of a college graduate will likely more than cover college expenses over time.

Saving for college has become more challenging. Average incomes have stagnated leaving less money available for savings. Tuition has become more expensive. The low interest rate environment has also reduced the rate of return produced by guaranteed investments. As a result, investors are experiencing a perfect squeeze- they either need to save more, risk more, or develop a smarter strategy.

Everyone's circumstances are different. Potential solutions should be viewed in the context of the entire financial picture of the family. While saving for children's education may be very important to many, gathering sufficient retirement assets may prove to be an even higher priority for others.

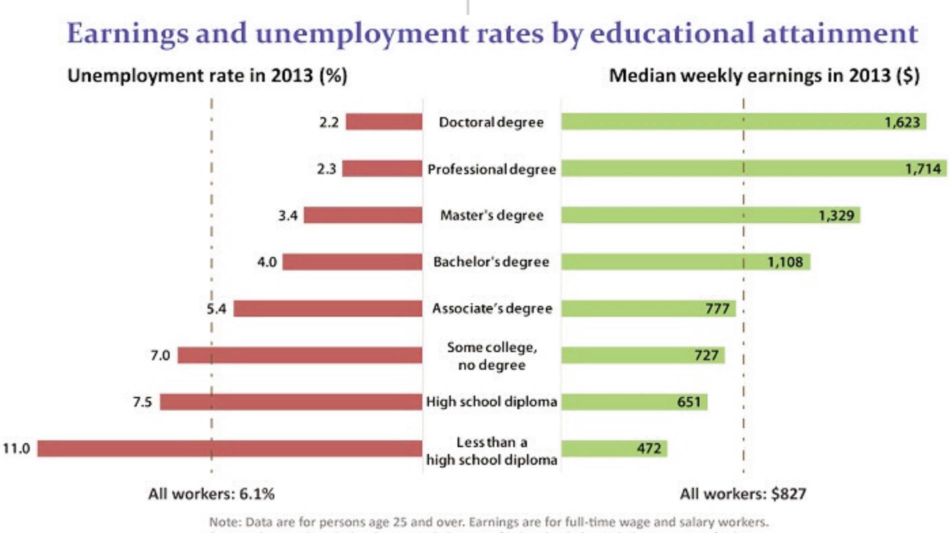
While there is no one solution that works for everyone, there are a number of basic points to understand:

1) Consider education planning as part of a holistic plan that properly prioritizes your goals.

2) Do the math: How much will education cost? How much do I plan on covering? How much do I have to save?

3) Understand that due to low interest rates, guaranteed options are expensive. Ten-year Treasury bonds yield 2.6 percent[3], so you can expect no more than an average 2.6 percent annualized return from them over the next 10 years.

4) Do not extrapolate historical returns of various assets, such as bonds, without considering your starting point (see point number 3). Historical returns include years in which yields were much higher. Stock returns may also vary from historical norms depending on their valuation.



5) Understand that while stocks may offer higher returns, they also carry more risk. It is not prudent to rely on a stock-only portfolio when tuition payments are just around the corner.

6) Decide on the right portfolio balance and adjust it along the way to potentially increase returns along the way, but reduce the risk of loss as the college years approach.

7) Consider self-adjusting target date investments[4], but be aware that they are not all created equal. Some target date portfolios have adjusted for today's reality of low interest rates and offer more flexibility. Some have not.

When in doubt, your trusted financial planner can help you weigh the costs and benefits of various courses of actions, as well as help select the most appropriate saving vehicles given your personal circumstances.

1- Source: T. Rowe Price. Assumptions: $17,860 average tuition in 2014 and 4% inflation over the next three years

2- Source: T. Rowe Price. Assumptions: $39,518 average tuition in 2014 and 4% inflation over the next three years

3- As of 5/21/2014

4- Target date funds are portfolios that automatically reset the asset mix between stocks, bonds, cash and other asset categories according to a pre selected time frame.

11th Annual Animal Law Conference

Date & Locations

9:00 a.m. to 4:30 p.m. check-in begins at 8:30 a.m.
Philadelphia • Thu., Aug. 21, 2014
Live Webcast • Thu., Aug. 21, 2014
Go to webcasts.pbi.org to register.
Simulcast • Thu., Aug. 21, 2014
Mechanicsburg
Pittsburgh

PBI is pleased to cosponsor this program with the PBA Animal Law Committee

BOOK AND AUDIO CD AVAILABLE

Course Book	2014-8250	$89
Audio CD	ACD-8250	$39
Audio CD & Book Set	ACDS-8250	$119

Include $8.00 shipping & handling & 6% Pa. sales tax on all book & CD orders.

To register, visit the PBI website at www.pbi.org or call 800-932-4637.

Explore this ever-growing field of law

- Hear an update on case law and legislation impacting animals, animal owners and businesses.
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- Discover how animal law interfaces with so many areas of practice--from estate planningto civil litigation to criminal, business andmore!

Visit with exhibitors at any of PBI's three conference centers

- Attend the live Philly location or our simulcast sites in Mechanicsburg or Pittsburgh and visit with shelters, rescues, service agencies and other organizations devoted to animal welfare and service.

Fragasso in the Community

On Thursday, May 29 several ladies from the Fragasso team, shown below, volunteered to serve lunch to the displaced women and children at the Women's Center and Shelter of Greater Pittsburgh (WC&S). Founded in 1974, WC&S was one of the first six shelters in the United States for battered women. Today, WC&S provides high quality, confidential and free programs offered in an environment where cultural competency, justice, autonomy, restoration and safety are priorities.

The ladies also took the initiative to gather donations for WC&S of needed items. The group plans to volunteer at the shelter several more times throughout the coming year.

If you would like to help WC&S, please visit their website at www.wcspittsburgh.org

Profiles in Progress: Jerry and Linda Martin

This quarter's client profile was written by Karen Lapina, CFP®, vice president.

Jerry and Linda Martin

Jerry and Linda Martin have been clients for many years, long before Jerry retired from Duquesne University where he was both the founder and dean of the School of Health Sciences for 12 years. They have three grown daughters, all very successful, and for whom Linda dedicated her life to raising.

Jerry grew up in Washington County where his father was a coal miner and mother a homemaker. Neither of them graduated from high school. Jerry was the first in his family to go to college and chose Pennsylvania State University. It was there he met Linda. They both received bachelor's degrees in 1964 and married soon after. He went on the University of Pennsylvania for physical therapy training and then on to Detroit where he worked as a physical therapist for three years.

Linda grew up in Bethlehem, Pa. Her father was an engineer and her mother a homemaker as well. She taught school for three years after she and Jerry were married. Their first daughter was born in 1967 followed closely by their second and third daughters.

After living in Detroit for a few years, the family headed to Boston where Jerry earned his master's degree in physical therapy from Boston University. From there, he accepted his first faculty position in the School of Health Related Professions at the University of Pittsburgh. He spent 21 years there during which time he earned his Ph.D., rose to chairman of the Department of Physical Therapy and then to the position of assistant to Chancellor Wesley Povar, before accepting the position of dean of the School of Health Related Professions.

He then moved on to Duquesne University where he says he experienced the most significant and proudest moment in his career as the founder of the School of Health Sciences.

"One does not often have an opportunity to start something brand new," Jerry said. "We brought 1,000 new students to DU and created programs at the master's level in physical therapy, occupational therapy, physician's assistant, speech-language pathology, health management systems, and a Bachelor of Science program in athletic training."

During his years at Pitt and Duquesne, he was also involved in a physical therapy practice with two other partners. "At one point we had 100 physical therapists working with us throughout Pennsylvania in nursing homes, private offices and doing electromyography, which is the testing of nerve and muscle integrity."

As a child and into young adulthood, Jerry played both baseball and basketball and was even invited to try out for the Pirates when they still played at Forbes Field. He credits his athletic ability and interest in sports as precipitating his interest in the human body and how it works.

His oldest daughter also works in the medical field as a nurse practitioner. His two other daughters both hold executive positions at large corporations in Washington, D.C. and San Diego. He and Linda also have four granddaughters.

Jerry and Linda now lead an active retirement life and enjoy playing golf and traveling whenever possible. But after nearly 50 years of marriage, family remains their most valuable asset.

529s, UTMAs, oh my!

BRIANNE KING, AIF®
Manager of Financial Planning

The summer of 2014 is here! And with the beautiful weather comes vacations, barbeques and graduation parties. As the class of 2014 is preparing to cycle out of high school and head off to college, many young children are just beginning their journey into the education system. No matter what age your child may be, it is never too early to start planning for their future.

According to the Bureau of Labor and Statistics, 65 percent of high school graduates in 2013 went on to a college or university, which means the chances that your child or children will go on to college is greater than half!

So now that we know that your child will most likely go onto higher education, the question remains, how should families prepare to pay for it? One if the biggest financial outlays in a family's life may be funding the higher education of their children. We see it on the news, we read it in the papers and we hear it from our friends. College is expensive. But just how expensive is it now and how expensive will it be in the future?

The average annual, national costs of tuition, fees, and room and board at a 4 year university:

2013-2014 Costs[1]	$17,860 (Public)
	$39,518 (Private)
2030 Projections[2]	$40,935 (Public)
	$90,576 (Private)

While these numbers may seem frightening, there are ways to start saving for college now that may be beneficial to you and your budding college student down the road.

One of the most common ways to save for your child's education is to establish a 529 savings plan. The 529 savings plan has gained popularity since it was established in 1996, mostly due to its flexibility, tax-deferred growth, tax-free distributions for qualified costs and depending on the state you live in, a state tax deduction for your contribution. Pennsylvania allows a state tax deduction up to $13,000 per year. Unlike other education savings vehicles or personal savings accounts, the tax-free investing and tax-deferred withdrawals allowed in a 529 savings plan let's you get more value for each dollar that you contribute.

In addition to the tax benefits, the 529 savings plan also has other features that make it unique. A 529 savings plan allows the owner to retain control of the account. Unlike other savings vehicles such as the Uniformed Transfer to Minors Act account, otherwise known as the UTMA, you do not have to relinquish control of a 529 account when the beneficiary reaches 21. This is an important distinction between savings vehicles. If you fund a UTMA account for your child and they do not go to school, your child will become owner of the account when they reach legal age and will have the right to spend that account as they see fit. Secondly, if you do fund a 529 account for your child and there is money left over in the account after they finish school, you can change beneficiaries of the 529 account to another child. It is important to note that while 529's allow for high contribution, there are limits on how much you may fund into the account. While the law can vary from state to state, you generally cannot contribute over $200,000 to a 529 savings plan. As an owner, it is best avoid over funding the account as any money withdrawn that is not a qualified cost will be subject to federal, state and local income tax along with a 10 percent federal penalty. Overall the benefits of a 529 savings plan far outweigh their limitations making this approach a popular option for families who would like to start saving for college now.

While a 529 savings plan is a favorite option today, the UTMA account was a wildly popularly savings vehicle prior to the 529 account and it is still an option today. The UTMA account has a lot of beneficial features that can make it an appropriate choice for your family.

529s vs UTMA
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As a 401(k) plan trustee, you shouldn't go it alone!

DANIEL HALLE, AIF®, RPA®
Vice President and Manager
Fragasso Retirement Plan Advisors

Recently I was meeting with the trustee of a 401(k) plan and they mentioned that they had a broker who assisted them with their retirement plan. When I told them that we were a Registered Investment Advisor and not a broker, the plan trustee asked, "Is there really a difference between the two?" I hear that question a lot. The simple answer is yes, there is a big difference, couched in federal and state laws that govern each.

History of 401(k) Plans
Most 401(k) and profit sharing plans were originally sold and distributed by the employer's property casualty, life insurance or health insurance agent. Many times the 401(k) plan was sold as an add-on benefit to round out the overall employee benefits package. Often times little thought was given to the investment line up and the fiduciary liability faced by the employer.

The Employee Retirement Income Security Act of 1974 (ERISA) clearly defined that the employer/trustee of the plan was a fiduciary to the participants, meaning employers/plan trustees have a legal responsibility to their employees to always make decisions about the plan that are in the best interest of the employee.

Also, if they don't act in the best interest of the employees, they can be held personally liable. This applies to directors and board members who serve on boards of nonprofit organizations as well.

Most employers/plan trustees have never thought about the awesome responsibility they have when sponsoring a retirement plan nor understand the liability they face by offering a plan. Most retirement plan trustees think their broker is handling the fiduciary work for them.

Unfortunately, that is not always the case and really goes to the core of the differences of a broker and investment advisor.

Investment Advisor Defined
The Investment Advisors Act of 1940 defines a Registered Investment Advisor as:

> "A person or firm that, for compensation, is engaged in the act of providing advice, making recommendations, issuing reports or furnishing analyses on securities, either directly or through publications."

Advisors provide advice and recommendations and are paid a fee, which is not dependent on any of the investments chosen. The Securities and Exchange Commission holds investment advisors to what is known as the fiduciary standard, which requires the advisor to act in the best interest of the retirement plan and plan participants. Simply stated, the advisor must put their clients' interests above their own. In doing so, the advisor must also divulge any possible conflicts of interest.

Broker Defined
The Securities and Exchange Act of 1934 defines a Broker as:

> "Any person engaged in the business of effecting transactions in securities on the account of others."

Brokers are paid with commissions tied to the investments in the funds they select for their client's retirement plans. Unlike investment advisors, who are held to the fiduciary standard, brokers are held to the suitability standard. The suitability standard states that a broker needs to believe that recommendations given are consistent with the interests of the retirement plan and plan participant's financial needs and circumstances at the time. The rule does not set standards around placing the client's needs before one's own or divulging conflicts of interest. The suitability standard only requires that the investment be suitable even if it is not necessarily in the client's best interest.

Why is this important?

The plan trustee is a fiduciary to the plan participants and is held to the fiduciary standard even if that person has no knowledge of investments or retirement plan administration. Even though these standards and rules have been in place for a long time, employers and plan trustees are just starting to become aware of their fiduciary duties and are now seeking ways to mitigate that liability. How do you know if your retirement plan consultant can act as a fiduciary? Ask them directly. If they can, you will receive a Form ADV, which provides information about the Registered Investment Advisor and an Investment Advisory Agreement.

For employers/retirement plan trustees there is no reason to go it alone. The stakes are too high to work with someone who is unable or unwilling to share the fiduciary liability for the advice they give.

529s vs UTMA

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The UTMA is a custodial account, which means the assets are held in the custodian's name (ex. the parent) for the benefit of a minor (ex. the child). There are no contribution limits associated with the UTMA account and you can contribute both cash and securities, while 529 accounts only allow cash contributions. It is important to understand that any contributions of cash or securities into the UTMA account are considered an irrevocable gift to the minor listed on the account and in turn, the minor now owns those assets. It is also important to note that gifts in excess of $14,000 may be subject to gift tax.

Now, you may be asking yourself, what is the benefit of making an irrevocable gift to your child? The benefits lie in the distributions allowed from the UTMA account and the taxation of the account. Unlike a 529 account, UTMA accounts have a much broader definition on what is considered a qualified distribution. In general, if the expense is for the child's benefit, you may take a distribution from the UTMA account. Fortunately, unlike a 529 you make take distributions from a UTMA account to pay for pre-college private school costs. The second notable benefit is the taxation of the UTMA account. Because your child is the owner of the account, the Internal Revenue Service allows the first $1,000 of unearned income to be tax free and the next $1,000 of unearned income to be taxed at the child's tax rate. Presumably most children are in a lower tax bracket than their parents, therefore the first $2,000 of unearned income in a UTMA account has little or no tax associated with it. While the tax benefits of a UTMA account aren't as lucrative as a 529 plan savings account, you still receive a tax benefit that you would not have otherwise received by saving into a personal investment account in your name.

Planning for college can seem like a complicated and stressful task to endure. But by planning properly and using the appropriate investment vehicles, you can add tangible value to your money over time. At Fragasso Financial Advisors, we are here to help guide you through each step of planning and funding your family's education needs.

1- Source: www.collegeboard.com.

2- 17 year projection based on the current inflation rate of 5% . These are only projections.

Take Your Child to Work Day!

April 24, 2014, was the official "Take Your Daughters and Sons to Work Day", and Fragasso Financial Advisors hosted a fantastic group of kids. Tess Erimias, Emma Halle, Carson Lapina, Cassie Lapina, Gemma Danko, Elizabeth Aites, Alexander Aites, Frank Katich, Samantha Katich and Maxwell Katich came to work with their mothers and fathers to participate in a day full of activities and fun!

The kids spent part of the morning getting to know each other and finding out their common interests. Afterward, they toured our office and got to meet with Bob Fragasso. As part of the day's activities, the kids worked on dream calculators were each presented with a certificate of participation and a $10.00 check.

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Welcome!


AMILA KOSTIC

Amila Kostic joined our Administrative team in February as a Client Account Specialist. Amila came to us after several years in the banking industry as a Fiduciary Control Analyst. In her position of Client Account Specialist, Amila works with clients by processing all aspects of administrative paperwork including fund transfers and new and managed account applications.


LISA BRIGNONI

Lisa Brignoni joined Fragasso in May as portfolio analyst in the Portfolio Management Department. She is integral to the investment management team by assisting with the selection and analysis of various investment securities using detailed fundamental analysis. Lisa is also responsible for reviewing investment strategy, asset allocation, and original research.


TERRY DOUGAN

Terry Dougan joined Fragasso in June as Staff Accountant reporting to Controller and Human Resources Manager, Christine Erimias. He handles all daily accounting duties, including accounts payable and receivable, reconciling the payroll and updating and maintaining employee files.

Feel free to pass this newsletter along to any friends and family members who might find it useful and contact us with any questions.