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To Our Clients: The IRS tax form mailing date for most non-retirement 1099 tax forms is **February 15** . As in past years, **National Financial Services LLC (NFS) has applied for and received a mailing extension from the IRS** that will permit the generation of some non-retirement 1099 tax documents **after February 15, but no later than March 10.** NFS makes every effort to issue your tax form by the February 15 IRS mailing deadline, but not all issuers send final information to NFS in time to meet the standard IRS mailing date. The use of the extension helps ensure that the tax form you receive is accurate and should help minimize the need to send you a corrected form, reducing any potential amendments to your tax return. NFS will post and mail consolidated 1099 tax forms in four waves between January 27 and March 16, 2018.

March 2018

Due Date Approaches for 2017 Federal Income Tax Returns

Tax filing season is here again. If you haven't done so already, you'll want to start pulling things together — that includes getting your hands on a copy of your 2016 tax return and gathering W-2s, 1099s, and deduction records. You'll need these records whether you're preparing your own return or paying someone else to prepare your tax return for you.

Don't procrastinate

The filing deadline for most individuals is Tuesday, April 17, 2018. That's because April 15 falls on a Sunday, and Emancipation Day, a legal holiday in Washington, D.C., is celebrated on Monday, April 16. Unlike in some years, there's no extra time for residents of Massachusetts or Maine to file because Patriots' Day (a holiday in those two states) falls on April 16 — the same day that Emancipation Day is being celebrated.

Filing for an extension

If you don't think you're going to be able to file your federal income tax return by the due date, you can file for and obtain an extension using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional six months (to October 15, 2018) to file your federal income tax return. You can also file for an extension electronically — instructions on how to do so can be found in the Form 4868 instructions.

Filing for an automatic extension does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the April filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Note: *Special rules apply if you're living outside the country or serving in the military and on duty outside the United States. In these circumstances you are generally allowed an automatic two-month extension (to June 15, 2018) without filing Form 4868, though interest will be owed on any taxes due that are paid after April 17. If you served in a combat zone or qualified hazardous duty area, you may be eligible for a longer extension of time to file.*

What if you owe?

One of the biggest mistakes you can make is not filing your return because you owe money. If your return shows a balance due, file and pay the amount due in full by the due date if possible. If there's no way that you can pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you'll limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the remaining balance (options can include paying the unpaid balance in installments).

Expecting a refund?

The IRS is stepping up efforts to combat identity theft and tax refund fraud. New, more aggressive filters that are intended to curtail fraudulent refunds may inadvertently delay some legitimate refund requests. In fact, since last year's tax filing season, the IRS has been required to hold refunds on all tax returns claiming the earned income tax credit or the refundable portion of the child tax credit until at least February 15.[1]

Most filers, though, can expect a refund check to be issued within 21 days of the IRS receiving a return.

[1] IRS.gov (IR-2017-181, IRS Encourages Taxpayers to Check Their Withholding; Checking Now Helps Avoid Surprises at Tax Time, October 30, 2017)

College Saving: How Does a 529 Plan Compare to a Roth IRA?

529 plan assets surpass $300 billion mark

As of September 2017, assets in 529 plans totaled $306 billion.

Source: Strategic Insight, 529 College Savings & ABLE, 3Q 2017 529 Data Highlights

Note

Investors should carefully consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. Specific information is available in each plan's official statement. Keep in mind that there is the risk that 529 plan investments may not perform well enough to cover costs as anticipated. Also consider whether your state offers any 529 plan state tax benefits and whether they are contingent on joining your own state's 529 plan. Other state benefits may include financial aid, scholarship funds, and protection from creditors.

529 plans were created 22 years ago, in 1996, to give people a tax-advantaged way to save for college. Roth IRAs were created a year later, in 1997, to give people a tax-advantaged way to save for retirement. But a funny thing happened along the way — some parents adapted the Roth IRA as a college savings tool.

Tax benefits and use of funds

Roth IRAs and 529 plans have a similar tax modus operandi. Both are funded with after-tax dollars, contributions accumulate tax deferred, and qualified distributions are tax-free. But in order for a 529 plan distribution to be tax-free, the funds *must* be used for college or K-12 education expenses. By contrast, a qualified Roth distribution can be used for anything — retirement, college, travel, home remodeling, and so on.

In order for a distribution from a Roth IRA to be tax-free (i.e., a qualified distribution), a five-year holding period must be met *and* one of the following must be satisfied: The distribution must be made (1) after age 59½, (2) due to a qualifying disability, (3) to pay certain first-time homebuyer expenses, or (4) by your beneficiary after your death.

For purposes of this discussion, it's the first condition that matters: whether you will be 59½ or older when your child is in college. If the answer is yes (and you've met the five-year holding requirement), then your distribution will be qualified and you can use your Roth dollars to pay for college with no tax implications or penalties. If your child ends up getting a grant or scholarship, or if overall college costs are less than you expected, you can put those Roth dollars toward something else.

But what if you'll be younger than 59½ when your child is in college? Can you still use Roth dollars? You can, but your distribution will not be qualified. This means that the earnings portion of your distribution (but not the contributions portion) will be subject to income tax. (Note: Just because the earnings portion is subject to income tax, however, doesn't mean you'll necessarily have to pay it. Nonqualified distributions from a Roth IRA draw out contributions first and then earnings, so you could theoretically withdraw up to the amount of your contributions and not owe income tax.)

Also, if you use Roth dollars to pay for college, the 10% early withdrawal penalty that normally applies to distributions before age 59½ is waived. So the bottom line is, if you'll be younger than 59½ when your child is in college and you use Roth dollars to pay for college expenses, you might owe income tax (on the earnings portion of the distribution), but you won't owe a penalty.

If 529 plan funds are used for any other purpose besides the beneficiary's qualified education expenses, the earnings portion of the distribution is subject to income tax *and* a 10% federal tax penalty.

Financial aid treatment

At college time, retirement assets aren't counted by the federal or college financial aid formulas. So Roth IRA balances will not affect financial aid in any way. (Note: Though the aid formulas don't ask for retirement plan *balances,* they typically do ask how much you *contributed* to your retirement accounts in the past year, and colleges may expect you to apply some of those funds to college.)

By contrast, 529 plans do count as an asset under both federal and college aid formulas. (Note: Only parent-owned 529 accounts count as an asset. Grandparent-owned 529 accounts do not, but withdrawals from these accounts are counted as student income.)

Investment choices

With a Roth IRA, your investment choices are virtually unlimited — you can hold mutual funds, individual stocks and bonds, exchange-traded funds, and REITs, to name a few.

With a 529 plan, you are limited to the investment options offered by the plan, which are typically a range of static and age-based mutual fund portfolios that vary in their level of risk. If you're unhappy with the market performance of the options you've chosen, under federal law you can change the investment options for your *existing* contributions only twice per calendar year (though you can generally change the investment options on your *future* contributions at any time).

Eligibility and contribution amounts

Unfortunately, not everyone is eligible to contribute to a Roth IRA. For example, your income must be below a certain threshold to make the maximum annual contribution of $5,500 (or $6,500 for individuals age 50 and older).

By contrast, anyone can contribute to a 529 plan; there are no restrictions based on income. Another significant advantage is that lifetime contribution limits are high, typically $300,000 and up. And 529 plan rules allow for large lump-sum, tax-free gifts if certain conditions are met — $75,000 for single filers and $150,000 for married joint filers in 2018, which is equal to five years' worth of the $15,000 annual gift tax exclusion.

Business Owners: Should You Consider a Wellness Program for Your Employees?

Note: Employers considering the adoption of voluntary wellness programs that include financial incentives tied to medical screenings and health risk assessments should closely monitor developments surrounding these programs and their compliance with the Americans with Disabilities Act and the Genetic Information Non-Discrimination Act. In a December 2017 federal court decision, Judge John D. Bates determined that the current rules governing the incentive limits would be vacated as of January 1, 2019, and ordered the Equal Employment Opportunity Commission to propose new rules by August 2018. Employers may want to consult wellness program professionals before making any final decisions.

Sources: Benefitnews.com, January 3, 2018, and Plan Sponsor, January 10, 2018

Are employer wellness programs worth the investment? A review of some of the key studies examining the topic seems to indicate that such programs may indeed bring a variety of organizational benefits, depending on overall objectives and program design. Focusing only on return on investment (ROI) results, however, could provide too narrow a view of the potential advantages.

Review the findings

In 2010, an article in the *Harvard Business Review (HBR)* detailed numerous wellness program benefits realized at several different companies. This article, which has been frequently cited in the employee benefit arena since its original publication, found that:[1]

- One large, well-known health industry business saved $250 million in health-care costs over 10 years through its wellness program.
- Another company was able to see a $6 return for every $1 invested in its wellness program.
- A third organization realized an 80% decline in lost work days and a 64% decline in modified-duty days over a six-year period. Cost savings totaled $1.5 million over the time frame.

More recently, a popular study by the RAND Corporation questioned the 2010 *HBR* findings, citing differing results. In fact, the RAND Wellness Programs Study, which covered nearly 600,000 employees at seven organizations, concluded that "wellness programs are having little if any immediate effects on the amount employers spend on health care." RAND also discovered similar results after analyzing 10 years of data by a Fortune 100 employer.[2]

In this second case, the employer's wellness program had two different components: a lifestyle management program, which focused on employees with health risks such as smoking and obesity, and a disease management program, which was designed to help employees who already had a chronic disease. Overall, the program resulted in average health-care cost savings of $30 per member, per month. However, 87% of those savings were attributed to the disease management program (resulting largely from a 30% reduction in hospital admissions). Moreover, the program returned just $1.50 for every dollar invested, on average. But a closer look at this figure revealed that the disease management program returned $3.80 for every dollar, while the lifestyle management program returned just $0.50 per dollar invested.

However, RAND acknowledged that a lifestyle management program can help reduce health risks such as smoking, obesity, and lack of physical activity, as well as rates of absenteeism. "Thus," it concluded, "if an employer wants to improve employee health or productivity, an evidence-based lifestyle management program can achieve this goal."

An even more recent *HBR* piece offered tips that built upon RAND study findings. It suggested that employers take steps to identify at-risk employees through health risk assessments and biometric screenings, and encourage (rather than coerce) them to participate in programs designed to address specific issues. It also noted that since chronically ill patients — those who currently suffer from diseases such as diabetes and heart disease — consume at least 50% of health-care claim expenses, "enrolling the chronically ill in disease-management programs that ensure they get appropriate care has the most potential to reduce insurance premiums."[3]

Finally, a Society for Human Resource Management (SHRM) article emphasized an additional benefit offered by wellness programs that is difficult to quantify: the "employee positivity factor." In this report, SHRM listed some of the advantages a healthy employee can bring to work, such as stronger engagement, better idea generation, and more positive interactions with customers and co-workers. "While the concrete savings from reductions in health care costs and employee sick leave is a good method for calculating ROI, the additional benefits achieved by improving employees' health and well-being should not be ignored," the article concluded. "The additional contributions made by employees who are 'well' could potentially bury the ROI estimated by the hard-cost findings."[4]

Consider the big picture

When deciding whether to add a wellness program to your benefit lineup, be sure to consider both the financial and intangible benefits, and how they align with your company's objectives.

[1] "What's the Hard Return on Employee Wellness Programs?" *Harvard Business Review* , December 2010

[2] "Do Workplace Wellness Programs Save Employers Money?" RAND Corporation, 2014

[3] "Meet the Wellness Programs That Save Companies Money," *Harvard Business Review* , April 20, 2016

[4] "The Real ROI for Employee Wellness Programs," Society for Human Resource Management, February 24, 2015

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How does working affect Social Security retirement benefits?

If you're thinking about working as long as possible to increase your retirement savings, you may be wondering whether you can receive Social Security retirement benefits while you're still employed. The answer is yes. But depending on your age, earnings from work may affect the amount of your Social Security benefit.

If you're younger than full retirement age and make more than the annual earnings limit ($17,040 in 2018), part of your benefits will be withheld, reducing the amount you receive from Social Security. If you're under full retirement age for the entire year, $1 is deducted from your benefit for every $2 you earn above the annual limit.

In the year you reach full retirement age, $1 is deducted from your benefit for every $3 you earn above a different limit ($45,360 in 2018).

Starting with the month you reach full retirement age, your benefit won't be reduced, no matter how much you earn.

Earnings that count toward these limits are wages from a job or net earnings from self-employment. Pensions, annuities, investment income, interest, and veterans or other government benefits do not count. Employee contributions to a pension or a retirement plan do count if the amount is included in your gross wages.

The Social Security Administration (SSA) may begin to withhold the required amount, up to your whole monthly benefit, as soon as it determines you are on track to surpass the annual limit. However, even if your benefits are reduced, you'll receive a higher monthly benefit at full retirement age, because the SSA will recalculate your benefit and give you credit for any earnings withheld earlier. So the effect that working has on your benefits is only temporary, and your earnings may actually increase your benefit later.

These are just the basics, and other rules may apply. The Retirement Earnings Test Calculator, available at the Social Security website, ssa.gov, can help you estimate how earnings before full retirement age might affect your benefit.

Will a government pension reduce my Social Security benefits?

If you earned a government pension from a job not subject to Social Security tax withholding ("noncovered employment") and are also eligible for Social Security benefits through a job where Social Security taxes were withheld, two provisions might reduce your benefits: the windfall elimination provision (WEP) and the government pension offset (GPO).

The WEP affects how a worker's Social Security benefit is calculated. If you're subject to the WEP, your benefit is calculated using a modified formula, possibly resulting in a benefit reduction. The amount of the reduction depends on the year you turn 62 and the number of years in which you had substantial earnings and paid into Social Security (no reduction applies to those with 30 years or more of substantial earnings). The reduction cannot be more than one-half of your pension from noncovered employment. Spousal and dependent benefits may also be reduced, but not survivor benefits.

The GPO may affect spousal or survivor benefits if the spouse or survivor earned a government pension from noncovered employment. In this case, the GPO may reduce Social Security benefits by up to two-thirds of the amount of the pension.

For example, if you receive a $900 monthly government pension and are eligible for a $1,000 monthly Social Security spousal benefit, you would receive only $400 per month from Social Security [$1,000 minus $600 (2/3 times $900) equals $400]. You would still receive your $900 pension, so your combined benefit would be $1,300.

Not all government employees are subject to these provisions. For example, federal employees under the Federal Employees Retirement System are exempt because they pay Social Security taxes on earnings. However, public-sector employees in some states do not pay Social Security taxes, and thus could be subject to the WEP. The GPO affects pensions from noncovered federal, state, or local government employment.

Rules and calculations for the WEP and the GPO are complex. Visit the Social Security website, ssa.gov, for more information.