



Final 2016 Tax Reminders

April 15 is right around the corner. (Note: this year's tax filing due date has been extended to April 18, 2017.)

The following are some final reminders as you wrap up your 2016 tax filings.

Illinois taxpayers are eligible for a state income tax deduction up to \$10,000 (\$20,000 if married filing a joint return) for contributions you made to Bright Directions, Bright Start, and College Illinois.¹ The 2016 Illinois Form 40 Instructions state:

Illinois taxpayers are eligible for a state income tax deduction up to \$10,000 (\$20,000 if married filing a joint return) for contributions you made to Bright Directions, Bright Start, and College Illinois.¹

Don't forget to report your contributions to Bright Directions when you file your 2016 taxes and remind others who may have contributed to your account to do the same. Any contributions postmarked in 2016 that were invested in January will appear on your enclosed 1st Quarter 2017 statement as a "Prior Year Contribution." Don't forget to include those "Prior Year Contributions" for 2016 tax deduction purposes.

Keep in mind, contributions to Bright Directions don't generate any tax forms for the Illinois state income tax deduction—simply report your total contributions on Illinois Schedule M, Line 12c.

Inform your tax professional if you elected to make a large gift in 2016 (typically over \$14,000 for individuals or \$28,000 for married couples). If you took advantage of the special five-year, front-loading gift election allowed for 529 plans, you are typically required to file IRS Form 709 to have a large gift to a 529 account split over a five-year period. The deadline for filing is April 18, 2017. We recommend you visit with your tax professional to obtain additional information or advice on any special filings that may be required.

If you're receiving a 2016 tax refund, you can direct all or a portion of that refund be invested in your Bright Directions account. Visit the "Tax Center" at BrightDirections.com and select the "Invest Your Federal or State Tax Refund" link for more information.

Additional tax information can be found in the Fourth Quarter 2016 Newsletter and the "Tax Center" at BrightDirections.com. Be sure to check with your tax professional for more information or advice regarding the tax benefits of investing with Bright Directions.

2016 Withdrawal Reporting

In January, Bright Directions mailed IRS Form 1099-Q to the recipient of any 2016 withdrawals. If the withdrawal was payable to the account owner, the 1099-Q was mailed to the account owner. For any withdrawals payable to the beneficiary or a school, the beneficiary received the 1099-Q. We recommend you discuss any withdrawal reporting requirements, and any coordination with other education tax credits and deductions, with your tax professional. We also recommend you retain all documentation of your qualified higher education expenses with your tax paperwork in the event there are any questions about how the withdrawn funds were used for expenses.



Graduation Gift Idea

Graduation season will be here before you know it! Will your beneficiary be celebrating a graduation from preschool, kindergarten, middle school, or high school? A contribution to their Bright Directions account makes a great gift that will help them reach their higher education goals. Make it easy for your family members and friends to make a gift contribution with GiftED. Simply log in to your account at BrightDirections.com to send an email invitation to anyone who might want to contribute. They will use the link in the email to make an electronic contribution directly to your account, or they can mail a check to us. You can view the gift contribution details online which will allow you to acknowledge any gifts that are received.

Successor Account Owners

Have you named a successor account owner for your Bright Directions account? A successor account owner is the individual named to take over ownership of an account in the event something happens to the account owner. While naming a successor account owner is optional, we recommend assigning one to streamline the process of changing ownership if the account owner passes away. Many account owners choose a spouse, an adult child, or another trusted friend or family member as a successor account owner. However, you can also name your Trust as the successor in the event you intend to have your assets transferred to your Trust to be managed by your Trustee. If an account owner does not name a successor account owner, we require the personal representative of the individual's estate to name a new account owner.

We recommend checking your account to find out if you have named a successor account owner. If you have named a successor account owner, you may also want to ensure the individual you have named is who you still wish to serve in that role. You can check your account by logging in to your account at BrightDirections.com or by contacting us at (866) 722-7283. If you need to add or change a successor account owner, you can do so by completing the appropriate form at BrightDirections.com and submitting it to us.

Rebalancing Your Portfolio

As market performance alters the values of your asset classes, you may find your asset allocation no longer provides the balance of growth and return you want. In that case, you may want to consider adjusting your holdings and rebalancing your portfolio.

Assets grow at different rates—which means your portfolio might end up out of line with the allocation you have chosen. For example, some assets might have recently grown at a much faster rate. To compensate, you might reallocate some of the value of fast-growing assets into assets with slower recent growth, which may now be poised to pick up steam while recent high-performers slow down. Otherwise, you might end up with a portfolio that carries more risk and provides a smaller long-term return than you intended.

Although there's no official timeline that determines when you should rebalance your portfolio, you may want to consider whether you need to rebalance yearly as part of an annual review of your investments. Ongoing reviews with your investment professional can help keep your Bright Directions investments on track with your risk-tolerance and long-term goals.

Source: Financial Industry Regulatory Authority ("FINRA") website, March 20, 2017.

An investor should consider the investment objectives, risks, and charges and expenses before investing. This and other important information is contained in the Bright Directions Program Disclosure Statement, which can be obtained from your financial professional and at BrightDirections.com and should be read carefully before investing. You can lose money by investing in a portfolio. Each of the portfolios involves investment risks, which are described in the Program Disclosure Statement. Before you invest, consider whether your or the beneficiary's home state offers any state tax or other benefits that are only available for investments in that state's 529 plan.

The Bright Directions College Savings Program is sponsored by the State of Illinois and administered by the Illinois State Treasurer, as Trustee.

October 25, 2016 – Morningstar, a leading provider of independent investment research, announced new Analyst Ratings and reports for 63 of the nation's largest 529 college savings plans. In 2016, Morningstar identified 33 plans that it believes to be best-in-class options, assigning these programs Analyst Ratings of Gold, Silver, and Bronze. These plans, for the most part, follow industry best practices, offering some combination of the following attractive features: a strong set of underlying investments; a solid manager selection process; a well-researched, asset-allocation approach; an appropriate set of investment options to meet investor needs; low fees; and strong oversight from the state and program manager. These features improve the odds that the plan will continue to represent a strong option for investors. Gold-rated plans have all or a vast majority of these attributes. Silver- and Bronze-rated plans embody most of these qualities but often have some room for improvement.

Since 2012, ratings for 529 plans use the same scale as the Morningstar Analyst Rating for mutual funds. Both Analyst Rating methodologies consider the same five factors to arrive at the final rating, though the 529 ratings reflect the quality of the entire plan—not a single investment, as is the case for the fund rating.

To arrive at an Analyst Rating for 529 plans, analysts consider:

Process: Did the plan hire an experienced asset allocator to design a thoughtful, well-diversified glide path for the age-based portfolios? What suite of investment options is offered?

People: What is Morningstar's assessment of the underlying money managers' talent, tenure, and resources?

Parent: Is the program manager a good caretaker of college savers' capital? Is the state managing the plan professionally?

Performance: Have the plan's options earned their keep with solid, risk-adjusted returns over relevant time periods? How is the plan expected to perform going forward?

Price: Are the investment options a good value?

Bright Directions Morningstar Pillar Ratings

Process: Positive **People:** Positive **Parent:** Neutral **Performance:** Neutral **Price:** Positive

Morningstar rates the five Pillars: Positive, Neutral, or Negative. While these ratings can help with the selection process, they should not be the only factor considered. A Morningstar Analyst Rating for a 529 College Savings Plan is not a credit or risk rating. Analyst Ratings are subjective in nature and should not be used as a sole basis for investment decisions. Morningstar does not represent its Analyst Ratings to be guarantees. Please visit Morningstar.com for more information about the Analyst Ratings as well as other Morningstar ratings and fund rankings.

¹An individual who files an individual Illinois state income tax return will be able to deduct up to \$10,000 per tax year (up to \$20,000 for married taxpayers filing a joint Illinois state income tax return) for their total, combined contributions to the Bright Directions College Savings Program, the Bright Start College Savings Program, and CollegeIllinois! during that tax year. The \$10,000 (individual) and \$20,000 (joint) limit on deductions will apply to total contributions made without regard to whether the contributions are made to a single account or more than one account. The amount of any deduction previously taken for Illinois income tax purposes is added back to Illinois taxable income in the event an Account Owner takes a Nonqualified Withdrawal from an Account or if such assets are rolled over to a non-Illinois 529 plan. If Illinois tax rates have increased since the original contribution, the additional tax liability may exceed the tax savings from the deduction.

Not FDIC Insured / No Bank Guarantee / May Lose Value

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