



Bright Directions Earns Morningstar Silver Medal—Again!

The Highest Rating Given to Advisor-Sold Plans.¹

Morningstar had this to say about the Program in its October 2016 Analyst Report:

“Illinois’ Bright Directions College Savings Program hits the mark for residents and nonresident do-it-yourselfers, and following prudent changes in October 2016, investors in this advisor-sold plan’s three age-based tracks travel smoother paths.”

“In addition to the plan’s packaged portfolios, investors can draw from an exceptional selection of individual options to create customized portfolios. The lineup includes a mix of more than 30 passive and active strategies managed by well-regarded asset managers. Investors have access to firms such as American Century, BlackRock, Dodge & Cox, MFS, PIMCO, and T. Rowe Price, among others.”

“Following a fee reduction in late 2015, the plan boasts relatively cheap age-based portfolios even while including a variety of top-notch managers.”

“Illinois’ state tax deduction on contributions (\$10,000 individual/\$20,000 joint) adds to the plan’s appeal for residents, and nonresidents may also find the plan compelling.”

¹October 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.

Long-Term Investing

The stock and bond markets continue to have volatility with ups and downs. The following table provides interesting insights as you look out over time as a disciplined long-term investor. 2008–2009 was a very difficult period for the economy and markets. Investors who stayed the course and continued to invest have seen their 401(k), college savings plans, and investments rebound. Match your risk tolerance with your investing style, and always utilize the expertise of your investment professional as you review your overall financial plan.

Dow Jones Industrial Average Milestones

Nov. 1972	1,000
Jan. 1987	2,000
Nov. 1995	5,000
Mar. 1999	10,000
July 2007	14,000
Mar. 2009	6,507
May 2013	15,000
Dec. 2014	18,000
Nov. 2016	19,000

Source: FedPrimeRate.com

Tax Corner

Illinois Tax Deduction

An Illinois taxpayer can deduct Bright Directions contributions from their Illinois taxable income up to:²

- ▶ \$10,000 individual.
- ▶ \$20,000 for married taxpayers filing jointly.

Review Illinois Form Schedule M for reporting information.

Tax-Free Withdrawals for Qualified Expenses³

Qualified withdrawals are exempt from federal income tax when used for qualified higher education expenses.² If you withdraw money for reasons other than qualified higher education expenses, the earnings portion may be subject to federal income tax and a 10% federal penalty tax as well as state and local income taxes. 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.

IRS Form 1099-Q will be mailed in late January 2017. The 1099-Q will include the amount of any 2016 distributions. If the withdrawal was paid to the beneficiary or directly to the college, the beneficiary will receive the 1099-Q.

Gift Tax Return (IRS Form 709)

Who Must File – In general, U.S. citizens and residents must file a gift tax return if 2016 gifts were given to someone (other than your spouse) totaling more than \$14,000. Regardless of any taxes ultimately being due, if you fall in this category, it's likely you'll need to file Form 709. If you made larger gifts, make sure to review any potential gift tax filing requirements with your tax professional.

American Opportunity and Lifetime Learning Credits

Make sure to review these credits with your tax professional to determine the best claiming strategy when paying for college. An American opportunity or lifetime learning credit can be claimed in the same year the beneficiary takes a tax-free distribution from a 529 plan, if the same expenses aren't used for both benefits. This means that after the beneficiary reduces qualified education expenses by tax-free educational assistance, he or she must further reduce them by the expenses considered in determining the credit. More information can be found in IRS Publication 970 available at IRS.gov.

Recontribution of Refunded Amounts

If a student receives a refund of qualified education expenses that were treated as paid by a 529 plan distribution, the student can recontribute these amounts into a 529 plan for which they are the beneficiary within 60 days after the date of the refund to avoid the need to figure the taxable part of the 529 plan distribution. Check with your tax professional for additional details.

Invest Your Tax Refund

Consider investing a portion or all your Illinois state or federal tax refund into Bright Directions. Call us or visit the Bright Directions "Tax Center" online for the details.

Helpful Resources:

- ▶ IRS.gov
- ▶ Tax.illinois.gov
- ▶ IRS Publication 970
- ▶ Illinois Schedule M and Instructions

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.

²An 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 Collegellinois! 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.

³Qualified higher education expenses include tuition, fees, books, supplies, and equipment required for enrollment or attendance; certain room and board expenses incurred by students who are enrolled at least half-time; the purchase of computer or peripheral equipment, computer software, or internet access and related services, if used primarily by the beneficiary during any of the years the beneficiary is enrolled at an eligible educational institution; and certain expenses for special needs services needed by a special needs beneficiary.

Not FDIC Insured / No Bank Guarantee / May Lose Value

BrightDirections.com



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