Give Yourself a Money Makeover

A new haircut or wardrobe overhaul can work wonders in terms of giving someone a fresh outlook on life and a self-esteem boost. The same can be said for a money makeover. While it might not be quite as fun as a traditional makeover, a money makeover can improve your finances. Best of all, unlike other kinds of makeovers, a money makeover can actually save you money.

Step 1: Identify your flaws.
Any makeover begins with identifying the things you want to change. Sit down, make an honest assessment of your current financial state, and then list a few things that you wish were different. For example, your list might include: Save more money, purchase a house, stop relying on credit cards, and figure out where all your money goes.

Be honest at this stage. You need to face up to things you want to change if you want your life to be different. At the same time, if your list is a mile long, don’t beat yourself up over it.

Step 2: Decide what you want to change.
If you’re like most people, your list of potential financial fixes is a bit overwhelming. Since you won’t be able to tackle everything at once — and because there are some things you may not be able to change at all — you’ll need to prioritize.

Look at your list and highlight a few items you think would make the biggest difference in your life and that you can actually do something about. Say you want to buy a house so you can stop renting, but reckless spending has left you with poor credit. Rather than focusing on changing your living situation, you might be better off focusing on improving your credit score, so that one day you can buy that dream house. Or, you may wish you had more disposable income. A raise

Continued on page 2

Straightening Out Your Financial Accounts

It’s not uncommon to accumulate things over the years without taking time to straighten them out periodically. That applies to our finances as well as our possessions. How many credit cards do you carry? How many stocks and bonds, brokerage accounts, and individual retirement accounts (IRAs) do you own? It’s not just a matter of finding time to keep track of different financial assets. Often, these assets are acquired without a clear-cut strategy. If you feel it’s time to straighten out your finances, consider these steps:

- Make a list of all your assets and debts. List each one individually, so you have a sense of how many different accounts you have.
- Go through each one of your investments. Make sure you understand why you own each one. Assess the prospects of each investment and decide whether you should continue to own it.
- Look for ways to consolidate accounts. Try to get down to one bank account, one brokerage account, and one IRA.
- Assess your outstanding debts. Look for ways to reduce the cost of your borrowing.

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Money Makeover

Continued from page 1

may not be on the table at work, but you may find more income by committing to a budget and reining in unnecessary purchases.

Step 3: Take action. The next step is to actually implement your makeover. Take the steps you need to make the necessary changes in your life. It may be helpful for you to come up with a calendar or list of specific action steps to keep you on track and help prevent getting discouraged.

For example, if you’re looking to improve your credit score, you might make a list of specific things you need to do to make that happen, with deadlines for each one. For example, check your credit report for errors, automate bill pay in order to avoid future late payments, and pay off one credit card in full in two months.

If it’s your spending that’s the problem, you might start by simply tracking how and when you spend for a week or two. Then, you might look at that information and see that you’re spending $40 per week on after-work drinks. Once you know that, you can make an effort to stop or reduce spending and dedicate that money to other goals.

Step 4: Get help if needed. You don’t necessarily need fancy tools to give yourself a financial makeover. But it often helps when someone has your back. If you’re worried about your ability to turn your makeover dreams into reality, you may want to seek the help of an expert on issues related to taxes, retirement, college planning, debt repayment, and more.

Not only can they provide valuable and objective advice, but they’ll also be a coach who can help you stay on track and achieve your money makeover goals.

Celebrate your success. As you take steps to change your financial life, be sure to stop and celebrate.

Give yourself a pat on the back — and perhaps a small reward — when you pay off that credit card, stick to your monthly budget, or set up automatic contributions to your retirement account at work.

Is Saving 10% Enough?

A common rule of thumb when planning for retirement is to save 10% of your gross income during your working year. But several trends suggest that it is probably on the low side:

- Fewer individuals are covered by defined-benefit plans. The 10% guideline anticipated that a retiree would receive a defined-benefit pension as well as Social Security benefits. But a substantial portion of the work force is no longer covered by a defined-benefit pension.

- The Social Security system will face increasing pressure in the future. Due to the unprecedented number of baby boomers who will be retiring in the near future, there will be fewer workers to pay the benefits for each retiree.

- Life expectancies are continuing to increase. Average retirement ages have been decreasing while life expectancies have been increasing. Thus, the average retiree has fewer years to accumulate savings, but those savings must last longer.

- Plans for retirement have changed. Another common retirement planning rule of thumb is that you’ll need 70% of preretirement income during retirement. Increasingly, retirees view retirement as a time to travel extensively or engage in expensive, new hobbies. Thus, more and more retirees are finding little change in their income needs after retirement.

All these trends point to the fact that future retirees will be responsible for providing more of their income for a longer period of time. Thus, you should consider higher, not lower, savings rates.

While 10% of income may sound like a lot of money, consider how many years you expect to work compared to how many years will be spent in retirement. Assume you start working at age 22, work until age 62, and then die at age 82. Thus, you work 40 years and are retired for 20 years — for every two years you work, you need to support yourself for one year in retirement. If your retirement expenses don’t go down and you don’t have a defined-benefit pension, you’ll need to save significant sums to support yourself.

Contrast the current situation with a typical scenario in 1950. At that time, the average retiree worked 47 years before retiring for nine years. Thus, that person worked over five years to support one year of retirement.

For many people, the answer may be to extend their working years. In the above example, if you wait until age 70 instead of age 62 to retire, you will work for 48 years and be retired for 12 years. Thus, you will work four years for every year of retirement. While preretirees may not have the mathematics down pat, many realize that working longer rather than retiring earlier may be the only way to ensure they don’t run out of retirement funds. Almost all recent surveys of baby boomers indicate the majority expect to work at least part-time during retirement.

These stark realities don’t mean you can’t retire, just that you need to plan carefully. If you’d like to discuss your retirement plans, please call.
Talking to Your Parents about Finances

Often, our parents need a gentle reminder to take their medication or make a doctor’s appointment. Other times, there’s the need for complete financial intervention. The tough job is knowing the difference.

**Signs You May Need to Intervene**

You may want to consider some degree of financial intervention if your parents repeatedly exhibit multiple symptoms, such as the following:

- Inability to handle day-to-day details
- Exorbitant expenditures
- Grandiose thinking
- Reluctance to spend money
- Increase in the number of checks written
- Excessive opening and closing of accounts
- Uncharacteristic withdrawals of large sums of cash
- Unattended long-term obligations
- Unpaid bills

**How to Approach Your Parents**

At issue is the element of control — most seniors loathe giving up control in their lives. The best approach is to appeal to their sense of protection where you’re concerned. For example, you might say something like, “I’m attempting to do my own financial planning, but I need to know more about yours in order to plan accordingly.” This can then open the discussion about their plans for long-term care and if they have money earmarked for assistance if needed, either through savings or a long-term-care insurance policy.

In some cases, the most effective strategy may be to engage the services of a third-party expert, such as a financial planner, tax advisor, and/or elder law attorney. Parents often feel threatened when children pry into their financial matters. Utilizing the services of an outside professional will help let them know that you have their best interests at heart.

**How to Organize Your Parents’ Finances**

However you end up dealing with decisions about your parents, you’ll need to draft or find the paperwork listed here:

- **Sources of retirement income** — If your parents don’t keep good records, this may mean checking the mail regularly to wait for income checks and bank or investment statements.
- **Residential preference** — You should regard staying in the family home as a temporary situation that must eventually change regardless of your parents’ wishes. Should your parents develop an illness or dementia, they will likely need 24-hour care at some point and not many adult children can provide this on their own.
- **Last will and testament** — While it’s important to honor your parents’ wishes, it’s also important to stave off sibling arguments and discord in the future. Ensuring your parents write a will helps make sure assets get distributed according to their wishes.

**Durable power of attorney** — This is legal authorization to take over your parents’ finances and make decisions on their behalf. A durable power of attorney for healthcare (DPAHC) allows you to make healthcare decisions on their behalf.

**Living will** — A living will is similar to a healthcare DPA, but is also an advance directive of the actual wishes of the incapacitated person regarding healthcare, such as life-sustaining measures or resuscitation.

**Funeral arrangements** — Many times seniors make these arrangements but forget to tell their children.

**Update beneficiary forms** — These may be outdated and include everything from insurance policies to investment payouts.

**Create a plan for estate taxes** — The larger the estate, the more prudent it may be to seek advice from an estate attorney or financial advisor.

The key elements to your parents’ financial security and longevity are to determine how much they need to live on now — and in the future — and be sure to factor in increased healthcare expenses.

Please call if you’d like to discuss this in more detail.
Take Inflation into Account

Inflation is one of the most insidious risks investors face, for two reasons: 1) it’s unavoidable and 2) it’s easily overlooked.

At an annual rate of inflation of 3%, a loaf of bread that cost $3.00 last year costs $3.09 this year. That doesn’t seem too bad. In fact, since 1926, the U.S. has experienced an annual rate of inflation of 3%, which is deemed a healthy rate for economic growth.

The other way to look at that 3% hike in prices is that the dollar you owned last year is now worth just 97 cents. Again, that alone doesn’t seem like a big deal, until you compound that rate over time. After 10 years, at that same rate of inflation, a dollar is worth 74 cents; after 15 years, it’s worth just 64 cents; and after 25 years, it’s worth only 48 cents.

Financial experts and economists make a distinction between nominal and real or inflation-adjusted growth. Nominal growth means that if the market value of your IRA rose from $100,000 to $103,000, it grew by $3,000, or 3%. But if the prices of all goods and services also rose 3%, your real return was 0% — inflation discounted the growth you earned.

The direct implication for investors is the need to account for inflation in their financial plans. The way financial planners do this is to either 1) state your goals in present dollars (i.e., don’t adjust them for the effects of inflation) and subtract an assumed rate of inflation from your expected return; or 2) state your goals in future dollars by compounding your current expenses by the assumed rate of inflation, and use your nominal rates of return to project your future asset values.

To deal with inflation, investors and retirees may require some adjustments in how they invest or must reduce their lifestyle costs in retirement. Since historically stocks have been the best way to keep your investment assets growing faster than inflation, even the most conservative investors may need to keep a healthy percentage of their portfolios invested in stocks.

The investor who thinks he’s avoiding risk by staying out of the stock market is ignoring inflation risk. Without some offset for the eroding effect of inflation, such ultraconservative investors virtually guarantee that the longer they live, the less purchasing power they will have.

Please call if you’d like to discuss inflation and your financial plan in more detail.

Jennifer

Financial Thoughts

In a recent study, retirees over the age of 50 who downsized their home did so for the following reasons: 64% wanted to lower monthly housing costs, 44% believed a larger home was too much work, 18% had fewer family members in the household, and 18% wanted to free up cash (Source: Merrill Lynch and Age Wave, 2015).

More than 15 million children under the age of six are enrolled in child care franchises across the United States. About 70% of parents place their young children in some type of daily child care. The average cost of child care in the U.S. is $11,666 per year ($972 per month) (Source: DBusiness, September–October 2015).

Middle-income families spend $242,070 raising a child to age 18, not including college costs (Source: DBusiness, September–October 2015).

The average amount of under-insurance on household contents for high-net-worth individuals is $415,000 (Source: REP., September 2015).

The cost of extracurricular activities for students, including band, field trips, etc., is $649 per year for grades kindergarten to 5, $942 for grades 6 to 8, and $1,403 for grades 9 to 12 (Source: Money, September 2015).

Developing Financial Goals

Keep these tips in mind when developing financial goals:

- Set exciting goals. Your goals should keep you motivated to reduce spending and save for the future. Whenever you’re tempted to abandon a goal, visualize what you’re saving for.
- Make your goals meaningful to you. When you are getting started, setting goals you’re motivated to achieve will help you realize the importance of the goal-setting process.
- State your goals in measurable terms. Quantify your ultimate goals as well as interim goals so you can track your progress.
- Prioritize your goals. If you have more than one goal, you may not have the resources to pursue all of them at the same time.
- Don’t be afraid to set ambitious goals. Just because a goal is difficult, doesn’t mean you shouldn’t strive to attain it.
- Reward yourself when you make progress toward your goals. To maintain your commitment to goals that can take years to achieve, reward yourself when you reach interim goals.

Financial Thoughts