



Spring Issue - 2016

Big Resolutions Conquered with Small Actions

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Improving our finances is normally among the top three New Year's resolutions for Americans, but most fail because they do not know how to get started; they do not have a template for success. Knowing where to begin is the first step toward making your improved financial situation a reality. A good place to start is to see how your financial life aligns with the Five Fundamentals of Fiscal Fitness. A piecemeal approach to this resolution is the key to achieving sustainable results. Choose one to three actions from the Five Fundamentals of Fiscal Fitness to implement this year, and you will be more likely to realize success.

Five Fundamentals of Fiscal Fitness

1. Pay Yourself First - Savings and Retirement

- Maximize your contributions to your employer sponsored retirement plan; if you can't max yet, increase your contribution by 1% this year, and the next, and the next until you are saving 10-15% of gross income for retirement.
- Put your savings for other goals on autopilot – have your employer automatically deposit 5-10% of your paycheck into your money market account.
- Do not increase your standard of living as income increases: have pay increases and/or bonuses received throughout the year deposited into your savings account.

2. Have Sufficient Liquidity

- Begin saving toward a goal of having 6, 9 or 12 months of monthly household expenses set aside for emergencies (i.e. larger unexpected expenses). Put monthly savings on autopilot as above.
- Include contributions to your savings in your monthly spending plan to help build your cash reserves.
- Review spending habits and redirect any discretionary spending you can to building emergency cash reserves.

3. Pay Off All Credit Cards and Consumer Debt

- Create a list of your consumer debts noting the remaining balance and the interest rate. Decide whether you will pay off debts by smallest balance first or highest interest rate first. Pay the minimum required payment on all debts except the debt ranked #1. The debt ranked #1 receives extra money until paid off. Then turn your focus to the #2 debt.
- Decrease your use of credit cards by leaving the cards at home when shopping and taking only the amount of cash you plan to spend.
- Delete credit card numbers from your account on online shopping sites you have used; when you have to enter the number, ask yourself if this is a necessary purchase that fits within your spending plan.

4. Own the Right-Sized Home

- Determine the current value of your home and compare to your annual earnings. Your home should be worth 2 to 2 ½ times your annual income. Are you overhoused with housing costs taking more than their fair share of expenses?
- Assess the amount of equity in your home. Maintain a mortgage of 50-80% of your home's value to maximize tax benefits.
- Compare your mortgage interest rate to current interest rates. Is it time to refinance to a lower interest rate?
- Stop paying extra on your mortgage and redirect that same amount to retirement savings or emergency fund savings.

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Two Social Security Spousal Claiming Strategies Being Eliminated

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As a result of the Bi-Partisan Budget Act of 2015, two Social Security spousal claiming strategies, "file and suspend" and "restricted application", are being eliminated.

Both strategies require that you reach full retirement age (FRA) and they enable the higher earning spouse to delay their retirement benefit in order to maximize it while allowing one spouse to collect a spousal benefit.

Under file and suspend, at FRA the higher earning spouse files for a retirement benefit, thereby enabling the lower earning spouse to file for a spousal benefit. The higher earning spouse, simultaneously suspends his/her own retirement benefit to allow it to earn delayed retirement credits (DRCs) at 8% a year until age 70.

Under the new law, it is no longer possible for auxiliary benefits, such as a spousal benefit, to be paid when the retirement benefit of the worker on whose record the auxiliary benefit is based is in suspension. It is still possible starting at FRA to suspend one's retirement benefit to earn DRCs but at that point all auxiliary benefits stop as well. This defeats the key purpose of file and suspend as a spousal claiming strategy.

Spouses who reach FRA before 4/29/16 can still take advantage of File and Suspend; after that date the new rule takes effect.

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Why Your Teenager Needs a Roth IRA

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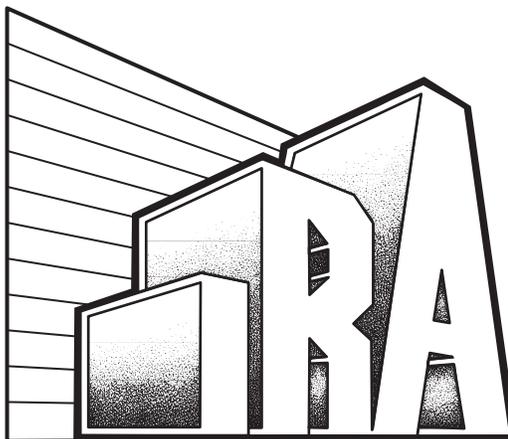
Your teenager may not get rich mowing lawns or babysitting the neighborhood children, but contributing some of those weekend earnings to a Roth IRA can pave the road to a more secure financial future. Anyone with “earned income”, regardless of age, is eligible to contribute. Though Roth IRA contributions are not tax deductible, most teens pay little or no taxes anyway, and Roth IRAs will allow their money to grow tax-free for decades.

Even if your child does not receive a W-2, just keep a record of the dates and hours worked and the amounts earned. Your child can contribute as much as \$5500 each year to a Roth IRA as long as they don't contribute more than their earned income for that year, and the source of the money does not matter. Often, parents or grandparents provide the cash for the contributions while the child's actual earnings are saved for college. A Roth IRA can be opened at almost any financial institution. A good place for a child's Roth is a discount brokerage or low-cost mutual fund company. Look for no or minimal annual fees, and consider a no-load, low-expense index fund as the investment vehicle. The deadline for contributing for the current calendar year is April 15 of the following year. So you have until April 15, 2016 to make a contribution for 2015.

Below is a detailed example which illustrates how Roth contributions for children work, and how contributions made early in life can provide a significant boost to future retirement savings:

Thirteen-year-old Megan babysits a couple of times each month during 2015 and earns \$25 each time. With her mother's help, she records her earnings in a simple spreadsheet on her computer. By year's end, she has earned \$550. Though this money is deposited to her college savings account, her parents agree to provide the cash for Megan to open a Roth IRA for 2015. Each year until Megan graduates from high school, she contributes \$550 to her Roth IRA. With her parents' assistance, in early 2016 Megan opens a Roth IRA account online and chooses a diversified no-load equity index fund as the investment vehicle. Because she has no other earned income, Megan is not required to file a tax return and is therefore in the 0% tax bracket, so she does not need the deduction offered by a traditional IRA. Assuming her Roth IRA earns 7% per year between ages 13 and 18, and she makes six annual contributions of \$550, Megan's account will grow to approximately \$3,934 by the time she enters college at age 18. This is a small sum, but during the next 50 years of Megan's college and working years, that amount will grow to an astounding \$115,884 assuming the same 7% average annual return. Even with a more modest 4% annual return, Megan's \$3,300 in babysitting earnings would grow to \$27,958 in 50 years. Had Megan waited until she completes graduate school at age 25 to begin contributing to a Roth IRA, she would need to contribute \$468 every year for 43 years to end up with the same \$115,884 at age 68. Besides the obvious benefit of Megan's long time horizon over which the compounding of interest works its magic, Megan also learns at a young age the discipline of regularly saving for retirement. And saving at least 10% of one's income for retirement is one of the fundamentals of fiscal fitness prescribed by all ACP planners.

Contact your advisor if you have questions regarding how to establish Roth IRA accounts for your children.



Two Social Security Spousal Claiming Strategies Being Eliminated (cont.)

Restricted application is the other spousal claiming strategy impacted by the new law. Under this strategy, at FRA a higher earning spouse whose spouse has already filed for his/her own retirement benefit files for just a spousal benefit and defers applying for their retirement benefit up to age 70 to earn DRCs. Typically, this spouse drops the spousal benefit at age 70 and switches to their maximized retirement benefit at that time.

Under the new law, only beneficiaries who reached age 62 by 1/1/16 will still be allowed to file a restricted application when they reach FRA. Everyone else is excluded and will be “deemed” by the SSA as filing for ALL eligible benefits when filing for any and will be paid the highest benefit entitled to. As a result, if a beneficiary wishes to maximize his/her retirement benefit, they must delay their application entirely to avoid the above deeming treatment.

Note that the rules for survivor benefits are not impacted and the deeming rule does not apply. It is therefore still possible, for example, for a lower earning surviving spouse (or divorced spouse, if the marriage lasted 10 years) to file at age 62 for a (reduced) retirement benefit and then switch to a full survivor benefit at FRA. The SSA will not require this spouse to take the higher survivor benefit when they first file.

Beneficiaries who fall within the grandfathering provisions for these spousal claiming strategies and who have not yet filed for benefits should speak to an adviser to determine if pursuing them is appropriate given their particular situation.

Regardless of your situation, these changes point to the importance of saving and planning ahead to ensure you'll have enough retirement income to meet your needs. Talk to your financial advisor today to develop a comprehensive retirement income strategy.



What Are the Benefits of Having a Financial Planner?

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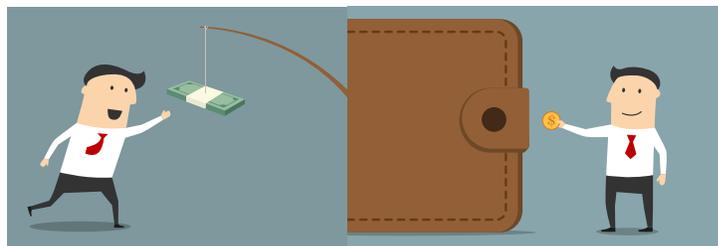
Employing a financial planner is not an inexpensive proposition, so the obvious question is, "Are they worth it?" Morningstar and Vanguard have each undertaken studies to quantify the impact good investment advice can have on your experience as an investor. Their methods differed, but both studies concluded that a good fiduciary advisor can enhance the annual returns on an investor's portfolio by 1.5% or more. These added returns could easily amount to as much as \$200,000 during a 25-year period for a retirement portfolio.

In addition, a big part of the enhancement comes from behavioral coaching or, as Bert Whitehead puts it, "...helping you avoid terrible mistakes." This is especially critical at times of major disturbances in the markets, such as the Great Recession of 2008. If your advisor talked you out of selling your diversified portfolio at the bottom of the market (March of 2009), then you captured a 52% increase in value by 2015, instead of locking in your 28% losses by selling everything in a panic and going to cash at the bottom. The Vanguard study of "Advisor Alpha" estimates the average annual value of behavioral coaching at 1.5%, but when you need it most, it is clearly worth much, much more.

The Vanguard study also estimates the value of other aspects of investment advice. These include setting an appropriate asset allocation, cost effective implementation with low-cost funds, disciplined rebalancing, tax-efficient asset location and withdrawal techniques, and avoidance of "income investing" in favor of a total-return approach. Vanguard pegs the combined enhancements from these other aspects of best-practices advice to be worth another 1.5% per year.

But what do financial planners actually do for their clients? Well, here are some of the things that Certified Financial Planners™ (CFP®) do for their clients:

- 1) They help you evaluate how well you are preparing for retirement, estimate your retirement income needs, and help you develop a plan to reach your retirement goals.
- 2) They help you assess the risk of your current portfolio and determine an acceptable level of risk for your particular situation. Given your acceptable risk, they determine an appropriate allocation for your portfolio. In other words, how much should be invested in stocks, bonds, or other asset classes and what return you can expect in the years ahead.
- 3) They can answer your questions about which investments may be appropriate for your portfolio. Fee-only planners who act as a fiduciary for their clients will also guide them to the



least expensive investments that will meet their goals.

- 4) Many planners help you assess the impact that taxes may have on your portfolio and your overall financial plan, and some will even prepare your tax return. Your tax liability is probably the biggest bill you pay every year. They help lower your tax bill by simply organizing your life in ways that take advantage of key provisions in the tax code. They adjust your plans as tax laws change.
- 5) They also help with many other aspects of managing your personal finances, from setting goals to creating an estate plan, from buying insurance to making charitable donations. They can offer budgeting tips and guidelines for your financial life stage.
- 6) Planners can help you determine appropriate moves for your retirement accounts like 401ks and IRAs. For example, would you be well served by rolling your 401k into an IRA at some point, and what custodian should you use? These types of moves can easily go awry and cost many precious dollars if done incorrectly.
- 7) The best planners provide one additional benefit, whose value is, as they say, "priceless". They keep you on track and make sure that all those plans you made together get implemented and periodically reviewed.

Many folks want a trusted, objective advisor to look over their shoulders; someone knowledgeable with whom to have frank discussions; someone who will, when the situation warrants it, say, "Don't do that; not a good idea." Occasionally an advisor will find that he/she has to tell someone that their goal is unrealistic and needs to be reconsidered. But more often, we get to tell someone that yes, you can spend that money and check that item off your bucket list. Financial planners fill many roles for their clients because we talk with people about some of the most important aspects of their lives, their hopes and dreams.

We strive for objectivity in our advice, but we are not disinterested in the outcome. We want every client to become wildly successful. The fees we charge for independent, objective advice may pay our bills, but the psychic reward of seeing a client prosper stokes our passion for the work we do. We are always careful to remind clients that money is never the most important thing, but it is an inescapable fact of life. Money matters, and navigating your money life with the help of a fiduciary tax-oriented financial planner provides benefits worth well more than their fee.

Big Resolutions Conquered with Small Actions (cont.)

5. Invest in Your Career

- Update your resume or curriculum vitae.
- Determine the next company position you are interested in and begin obtaining the necessary credentials or skills that it requires.
- Evaluate hobbies and interests that spark excitement for you outside of your current work. Are there needs of others that you can fill with that interest? Are the needs great enough to start a business?

Dr. Martin Luther King, Jr. said, "Faith is taking the first step even when you don't see the whole staircase." Choose several doable items from the actions above and set a goal for progress and not perfection with your finances in 2016. For help with efficiently and effectively mastering the Five Fundamentals of Financial Fitness, visit www.acplanners.org to find a local Alliance of Comprehensive Planners member who may be able to help you.

Rich Kids, Poor Kids (Part 1)

A View of our World Through our Grandchildren's Eyes in 100 Years

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This is the first of three related blogs covering a broad topic: reviewing the impact our legacy will have on our children and grandchildren.

Most of us who are baby-boomers or older had grandparents who had no indoor plumbing, no car, and remember the Great Depression and World War II as personal experiences. Our grandchildren can't imagine we grew up without TV, computers, cell phones or satellites. Today's children are the first generation who didn't learn their childhood games from their parents, and many of us don't have the technological skills to understand their games -- or even our smart phones.

Think about the world their grandchildren will face. We can't fathom the changes of the next 100 years -- from significant economic upheavals to likely wars with battles that could potentially result in devastation beyond the nightmares we have seen.

Considering the next 100 years compared to the past century forces us to think through what the next generations must do to assure their survival and prosperity. Our parents and grandparents lived in a very different era, and we should think about strategies to further prosperity --- not only for our families but our communities.

Facing the Future

Our children are not likely to be as affluent as their parents. Some say it will be the first generation to be poorer than their parents. The gap between the rich and poor is expanding at an alarming rate.

In addition to the wealth and earning gap of the past 30 to 50 years, there has been a widening educational gap in our country. High school graduation rates, ACT scores and comprehension skills have all plummeted with our country now ranking 25th among 50 first-world countries, down from number one during the 1950s. Poor schools get worse and the best schools get more expensive and elite. Additionally, 35% of our higher education resources are now devoted to students from China, Japan, South America, and the Arab countries, as compared to 5% 50 years ago; a seven-fold increase.

Even though educational progress seems grim by the standards of our childhood, few of us can match the technological prowess of our grandchildren. It seems that the evolutionary process started hardwiring kids' brains differently after about 1965. Maybe "being smart" in the 2200s will mean something entirely different in an overwhelmingly technological world, one in which setting up your TV remotes will be considered a simple task.

Indeed, ACT and SAT scores as we know them may become irrelevant in the next few generations. A hundred years ago, a classical education based on theology, philosophy, and languages was considered the cultural foundation for the future. Accelerating changes in critical thinking, scientific knowledge and specialized fields of inquiry require a much more advanced knowledge base.

Extended Life Expectancy

Life expectancy was 46 years in 1900 and had increased to 78 years by 2000. As a result, Social Security as we know it will end within a few decades, because there will be too few workers to support the large number of baby boomer retirees. Many actuaries predict that more than 50% of the American children born during this century will be centenarians. However, economic and demographic trends tend to be self-correcting. Certainly life expectancy won't continue to increase unless we address the primary health threats that we face: obesity, sedentary lifestyles and increasing stress.

To summarize, there is a widening gap between the haves and the have-nots, between the educated and the uneducated, and between the healthy and the unhealthy. Many factors contribute to these anomalies; generally the poorest among us not only have the fewest financial resources, but also the least education and the shortest life expectancy. Solving the income inequality issue, the glaring education gap and the health disparities within our society cannot be done independently.

Parenting Skills Are Key

The overriding common denominator between the haves and the have-nots in our society is the quality of their parenting. Forty percent of American children are raised in single-parent homes and others grow up with dysfunctional adults. Even among two-parent households, financial conditions usually necessitate that both parents work so that neither spouse is available to be the primary nurturer and teacher of children.

These children are less likely to have balanced, nutritional meals and may not be taught healthy habits. Children raised in dysfunctional homes are likely to live in an underprivileged environment. Their children will likely also be economically disadvantaged, as poverty is normalized in their world. When basic needs aren't met, the value of education is not paramount.

Of course we alone can't change the course of mankind. Our primary goal is to do what is best for our own families. We are in a position to influence and reinforce the well-being of our progeny by laying a sound financial foundation. There are perfectly legal tax strategies which our government has designed that enable families to improve their lives and those of their children.

