CHRISTOPHER H. WEED CPA, INC.
REGISTERED INVESTMENT ADVISOR

Christopher H. Weed, CPA/PFS, CFP®, MBA (Tax)

1313 W. Robinhood Drive, Suite A-2 • Stockton, CA 95207
P.O. Box 7954 • Stockton, CA 95267-0954
(209) 957-5025 • Fax (209) 957-5027
Website: www.chrisweedcpa.com • e-mail: cweedcpa@gmail.com

FINANCIAL CONCEPTS JULY 2014

Financial Tips for Major Life Events

As you encounter major life events, different financial matters will be of primary concern. For instance, your financial concerns when you start your first job will be very different from your concerns as you approach retirement age. Some tips to consider as you encounter major life events include:

Your First Job

- ❍ Establish solid financial habits, since the habits you develop now will set the financial tone for the rest of your life. Start by setting up a recordkeeping system, monitoring your cash flow, and developing a workable budget.
- ❍ Before you get used to spending your entire paycheck, start saving at least 10% of your gross income. A good place to start is with your 401(k) plan at work. If you can't save the maximum permitted by the plan, at least save enough to take full advantage of any employer matching.
- ❍ Review all benefits offered by your employer, taking advantage of all that are appropriate for your circumstances.

Your First Home

- ❍ Set an upper limit for your home's purchase price. Don't raise that limit as you look for houses, thinking you can reduce your living expenses to cover the difference. It's very difficult to change your spending habits.
- ❍ Aim for a down payment of 20% of the purchase price. Down payments typically range from 5% to 20% of the total purchase price. A lower down payment makes it easier to purchase a home, but

Continued on page 2

Don't Forget about Catch-up Contributions

If you're 50 years or older, make sure you take advantage of the catch-up options for contributions to IRAs, 401(k)s, and other tax-advantaged, defined-contribution retirement plans.

For IRAs — both traditional and Roth — you can contribute an extra $1,000 a year beyond the standard limit of $5,500. But for workplace qualified plans, the catch-up provisions are even more generous. For 401(k) plans, the catch-up allowance is $5,500 — raising the total limit for the older age group to $23,000 in 2014.

You can do even better if you take advantage of the catch-up provisions in both an IRA *and* a workplace plan. If you're 50 and work until you're 70 (at which time your Social Security benefits reach their maximum), contributing the maximum in an IRA and a 401(k) at a steady 7% annual return could potentially add more than $265,000 to your nest egg.

Where do you find the money to contribute these extra amounts? That's an entirely different subject, but you can start by reducing the luxuries in your lifestyle: dining out less frequently, buying a cheaper car, taking less extravagant vacations, canceling some subscriptions, cutting back on the premium cable TV channels, or using a cheaper data plan for your cell phone. You could also consider refinancing your mortgage (rates are near historic lows), making your home more energy efficient, and ensuring you take advantage of every tax break you can find on your tax return. If you're not sure how to put the right action plan together, please call to discuss. ❍❍❍

FR2014-0219-0009

Financial Tips

Continued from page 1

also increases the size of your mortgage.

- ❍ Review your options before selecting a mortgage. You will want to review fixed-rate and adjustable-rate mortgages, plus decide how long a mortgage term you want.
- ❍ Make sure you have adequate homeowners insurance. Even though your insurance company will estimate how much insurance is needed, it is your responsibility to make sure your policy limits are adequate.

Marriage

- ❍ Update documents. Review your estate planning documents, asset ownership, and beneficiary designations to make sure they reflect your wishes for the distribution of your assets to your spouse.
- ❍ Track expenses for a month. This will give you an idea of where money is spent so you can decide how to spend money in the future. It will also highlight areas where the two of you differ regarding finances.
- ❍ Decide on joint or separate bank accounts. Some couples prefer pooling all funds, believing it helps create a feeling of unity. Others, however, have difficulty losing their financial autonomy.
- ❍ Split financial responsibilities. One person may be more suited for the tasks due to their background or time availability.

Children

- ❍ Name a guardian for your children. If you and your spouse both die without naming one, the courts will appoint a guardian.

- ❍ Purchase sufficient life insurance to provide for your children until they are adults. Determine how much is needed for living expenses, hobbies, medical expenses, and college. Also ensure you have adequate disability income insurance.
- ❍ Save for college. Many people have difficulty saving the entire amount needed to fund a college education. However, there are other sources available, such as borrowing and financial aid. Thus, your goal may be to accumulate 30%, 50%, or some other percentage of the total cost. Take a look at education savings accounts and Section 529 plans, both of which have significant tax advantages.
- ❍ Teach money basics to your children. In a society that has difficulty managing money, teaching your children good money skills is a lesson that will benefit them for a lifetime.

A Job Loss

- ❍ Don't just accept your employer's severance package. Try to negotiate for more severance pay or for an extension of health insurance benefits. If your employer won't cover health insurance, check into COBRA coverage and pay the premiums yourself.
- ❍ Update your resume. Take advantage of any career counseling opportunities offered by your former employer. Look into the possibility of a career change if you have difficulty finding a job. Consider taking courses to update your job skills or to qualify for another job.
- ❍ While this may be a time when you'll need to dip into your emergency cash reserve, use the money carefully, since you don't know how long you'll be without a job. Look for ways to cut your living expenses and avoid nonessential expenses like vacations, clothing, and entertainment.

A Second Marriage

- ❍ Prepare formal estate planning documents to carry out your wishes. Even with a will, your spouse can typically override its terms and elect to receive a statutory percentage. To prevent this, you usually need a prenuptial or nuptial agreement.
- ❍ Review beneficiary designations and life insurance amounts. It's not unusual to forget to update beneficiary designations for retirement accounts, individual retirement accounts, and life insurance policies. Also review your life insurance amounts, since you may need more to help ensure all heirs are treated equitably.
- ❍ Discuss your plans with your spouse and children. Openly discussing your plans before death may prevent disagreements among heirs after your death.

Retirement

- ❍ Before retiring, review your finances carefully to ensure you have adequate funds. You may want to consider part-time employment, both to supplement your income and to occupy your time.
- ❍ If you retire before age 65, obtain health insurance until you're eligible for Medicare.
- ❍ Plan for long-term-care needs through the use of insurance or savings.
- ❍ Before retirement, make any necessary changes to your debt structure. For instance, you may want to refinance your mortgage, purchase a new car with a loan, or open a home-equity line of credit for future needs.
- ❍ Review your estate plan. Consider a living will, health care proxy, and durable power of attorney.

If you need help dealing with financial concerns at any point in your life, please call. ❍❍❍

A Budget Is Your Savings Plan's Best Friend

Your budget holds your savings plan together and is the key to maintaining healthy savings. A budget also shows you where your money is going every month so that you can ensure you are bringing in more than is going out and saving enough to meet your goals.

4 Steps to Creating a Budget and Sticking to It

1. **Track where your money goes —** If you don't know already, it may take three to four months for you to get a really good idea of where you spend money and how much you spend. You can track your expenses using your bank statements, receipts, or logging it into a journal or smartphone app. Add up the total for each month and then average it out. For example, if you spent $200 on groceries one month, $300 the next, and $250 the next, your average would be about $250 a month. That gives you a good base to start building a budget you can stick to.
2. **Put your budget on paper —** Once you've tracked your expenses, use an Excel spreadsheet or online/mobile application to put your budget on paper. In the expenses column, include all expenses: groceries, gas, housing, clothing, entertainment, gifts, and so on. If you spent money on it, it should be in your budget. In another column, input your income. If you have a salary, you can input how much you receive each paycheck; but if your income varies, you can use the average of the last three months. Subtract your expenses from your income to see you how much money you have left every month. If you have a negative number, you know you need to make some changes in your budget. If you have a positive number, that can be the amount of money you save each month.
3. **Keep looking for ways to increase your savings —** Almost all expenditure categories offer potential for savings. With essential expenses with fixed amounts, such as your mortgage, taxes, and insurance, you may be able to refinance your mortgage, find strategies to help reduce taxes, or comparison shop your insurance to reduce premiums. Essential expenses that vary in amount, such as food, medical care, and utilities, can usually be reduced by altering your spending or living habits. For instance, you can actively shop for food with coupons, exercise to improve your health, or use energy-saving light bulbs through your house. Discretionary expenses, such as entertainment, dining out, clothing, travel, and charitable contributions, typically offer the most potential for spending reductions. Dining out four times a week? Reduce it to two, go to less-expensive restaurants, and save the difference.
4. **Reevaluate —** It is critical to reevaluate your budget after the first few months to ensure that it fits your needs and goals. If you find that you are continuously spending more money than budgeted for necessities such as gas, groceries, or school supplies, adjust your budget. Once you get past the first few months with a new budget, reevaluate every six months or as needed. Anytime your income changes, adjust your budget. Anytime you add or get rid of an expense, adjust your budget. ❍❍❍

Talking to Family about Your Estate Plan

In many families, finances and estate talks are taboo. Other families laugh and make jokes. No matter what kind of family dynamics exist in your life, talking about what will happen after a person dies can be a painful and scary discussion, but it's important to talk with your loved ones about what you want, what they want, and what is laid out in your will.

❍ **Keep it light —** Having this discussion can bring up a lot of emotions for your loved ones; thinking about losing someone you love so dearly is painful. So keeping the conversation light but to the point can help keep the conversation on track and productive.

❍ **Talk openly and honestly —** A decision you have made may hurt someone's feelings, or there may be things you don't want to tell people about, but it is crucial to be open and honest with your beneficiaries.

❍ **Discuss values, not just valuables —** When you die, how do you want people to remember you? What parts of you do you want to live on? This may include traditions, values, family names, rituals, religious beliefs, and so on. This is an important matter to bring up during this discussion with your family. Talk about these things with your family to share how you feel and to see how they feel.

❍ **Have a professional present —** Having your estate planner present can be very helpful and, in some cases, necessary. In many cases, a professional has a better understanding of how estate planning works and can assist by answering any questions your loved ones may have. You might have a family-only conversation first and then a second conversation with your family and the estate planning professional. ❍❍❍

A Retirement Account Is Not a Retirement Plan

A retirement plan is like a road map. It shows you how to get from where you are to where you need to go. The vehicle that gets you there could be a bike, a car, a train, a plane, a boat, or in some cases, a combination of all these vehicles. In retirement planning, your vehicles are your accounts: they transport you from point A to point B.

Just as a road map keeps you from getting lost on the road, a retirement plan keeps you from getting lost on your way to retirement.

A retirement account is simply a vehicle to save for retirement, while a retirement plan includes many factors — when you want to retire, how much you will need every month, your assets and investments, your debts, Social Security benefits, health care, emergency fund, and more.

Some factors to consider include:

Are you contributing enough? If you're like most Americans, the answer is probably no. In 2012, on average, Americans contributed about $2,700 to their 401(k) plans; even if matched at 100%, $2,700 a year is not enough for most people to make it through retirement. There is a lot of room to contribute far more than average before hitting the annual 401(k) contribution maximum of $17,500 (that's the limit in 2014 per IRS rules; it typically increases a bit each year). But if you don't have a plan — if you don't know how much you'll need to have saved when you retire — you won't know how much you need to contribute every month. For most people, not knowing results in not contributing enough.

Are your investment allocations right for you? How you allocate your money — the types of investments you have — should depend on where you are on the path to retirement. Stocks involve more risk but typically yield a higher return, while bonds carry potentially less risk but typically yield a lower return.

Generally, the further away you are from retirement, the more money you should have in stocks and the less money you should have in bonds. As you get closer to retirement, you should reallocate your funds toward more bonds and less stocks. Why?

Because if you are too conservative when you're young (not invested enough in stocks), your investments won't grow like you need them to. But if you're too aggressive as you near retirement (invested too much in stocks), market volatility could derail your retirement plans.

Have you strategically chosen your accounts? The government incentivizes us to save for our retirement by giving certain types of tax advantages to qualified retirement accounts. But those advantages vary.

For some, you may contribute pretax dollars (but that money is taxed when you take it out in retirement). For others, you can take out money tax free in retirement, but contributions are made after taxes.

So you need to think strategically about how and where you are investing for retirement. In addition to the tax implications associated with different investment vehicles, you also need to look at fees associated with the account. And beware, if you're planning to retire early, many types of retirement accounts will penalize you heavily for early withdrawals.

If your employer offers a 401(k) plan and matches contributions, it always makes sense to contribute at least as much as your employer will match. But for most Americans, that 401(k) plan alone is not sufficient.

To ensure that you are saving enough to retire when and how you want to, you need to have a road map to get from here to there. Please call if you'd like to discuss this in more detail. ❍❍❍

FR2014-0219-0009

Did You Know?

In a recent survey about whether individuals would have made different life choices, 46% of those between the ages of 50 and 64 said they would have chosen different professions (compared to 29% of those age 65 and older), 25% said they would have delayed having children (compared to 17% of those age 65 and older), and 43% would have ended a bad relationship (compared to 25% of those age 65 and older). In the same survey, 11% of those between the ages of 50 and 64 said that their family was doing very well financially, compared to 22% of those age 65 and older (Source: *AARP Bulletin*, January–February 2014).

Approximately 28% of Americans would consider moving to another state or county to get better and/or cheaper health insurance. Of those between the ages of 18 and 29, 40% would be willing to move to another state (Source: Bankrate.com, 2014).

Approximately one out of every four American workers uses 401(k) and other retirement savings accounts to pay current expenses (Source: *REP.*, November 2013).

Approximately 62% of workers between the ages of 45 and 60 plan to delay retirement, up from 42% in 2010 (Source: *REP.*, November 2013).

During the last five years of their lives, Medicare recipients spent $38,688 in out-of-pocket costs (Source: Mount Sinai School of Medicine, 2013). ❍❍❍