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Financial Planning Strategies

A Financial Planning Update

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Understanding Interest Rates and Your Financial Situation

When discussing bank accounts, investments, loans, and mortgages, interest rates are an important concept to understand. Interest is the price you pay for the temporary use of someone else's funds; an interest rate is the percentage of a borrowed amount that is attributable to interest. Whether you are a lender, a borrower, or both, carefully consider how interest rates may affect your financial decisions.

The Purpose of Interest

Although borrowing money can help you accomplish a variety of financial goals, the cost of borrowing is interest. When you take out a loan, you receive a lump sum of money up front and are obligated to pay it back over time, generally with interest. Due to the interest charges, you end up owing more than you actually borrowed. The trade-off, however, is that you receive the funds

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Countdown to Retirement: Strategies for Saving in Your 50s

The Baby Boom generation is about to enter another era: retirement. Never known for accepting the status quo, Baby Boomers are ready to redefine the "golden years." Forget about endless days of leisure. This generation seeks adventure, travel, and new business pursuits. While these changes may redefine retirement, will Boomers be able to finance their plans? Today, many people age 50 and older have not begun to save for retirement or have yet to accumulate sufficient funds.

If you're in this age group and find yourself facing an underfunded retirement, it's not too late to take charge. There are actions you can take today to get on the right track. Here are some ideas:

What's it going to take? First, estimate how much money you will need in retirement. Once you have an idea of the amount, you can work toward meeting

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Countdown to Retirement: Strategies for Saving in Your 50s

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that goal. You may need 60–80% of your current annual income in retirement. Your financial professional can help you assess the best amount for your situation.

Maximize your contributions. If your employer offers a retirement plan, contribute as much as the law will allow. In 2014, those age 50 and over can contribute up to $23,000 to an employer-sponsored 401(k) plan ($17,500 + $5,500 "catch-up" contribution). Many employers also offer a company match, so be sure you contribute enough to claim this "free" money, which can add up over time.

Create a spending plan. In other words, make a budget. Many people think a budget is restrictive, but look at it this way: You can spend now, or you can have the money to afford your dream adventures later. To start, it is important that you pay down debt and avoid accruing new debt. Next, examine your spending habits and replace some of your discretionary spending with saving. Saving even $20 more per week is a step in the right direction.

Take initiative. Besides contributing to your employer's plan, you can save more by opening your own Roth IRA. Contributions are made after taxes, but earnings and distributions are tax free, provided the account is at least five years old and you have reached age 59½. Those age 50 and over can contribute up to $6,500 a year in 2014. Eligibility for these plans begins to phase out with adjusted gross incomes of $114,000–$129,000 for single filers and $181,000–$191,000 for married joint filers in 2014.

Hang out your shingle. Many Boomers hope to start their own businesses in retirement. Why wait? If you begin your entrepreneurial efforts now, your business has the potential to be in full swing by the time you retire, and any profits between now and then can be added to your savings.

Move it or lose it. Your home may have significantly increased in value since you first bought it, and you may have already paid off the mortgage. With children at or near adulthood, do you really need all that space? Selling now and moving to a smaller, more affordable location may allow you to transfer some of the equity in your home into a savings vehicle.

Reconsider your retirement age. If you want to cushion your retirement savings, consider staying on the job longer. Some people actually leave retirement to re-enter the workforce because they feel more fulfilled while working. Others seek part-time work, consulting, or entrepreneurial endeavors. Such options may enable you to earn more money to save, which may help to postpone spending down your savings.

Regardless of which options you choose, you can benefit from time and compounding interest. Every year that your savings remain untouched allows more time for growth. It is never too late to start preparing for your future. So, take action *now* to get on track to saving for your retirement. $

Planning for Your Financial Future

Regardless of the path your life takes, money will play an important role at every turn. Certain events, especially graduating from college, entering the work world, getting married, having children, and retiring all require targeted financial strategies. Good habits developed *now* can go a long way toward helping you achieve your financial goals.

From Campus to the Workforce

If you're just starting your career, set some goals for making the most of your disposable income. Consider the following three rules:

1) budget your money;
2) keep an emergency fund to cover three to six months' of living expenses; and
3) avoid unnecessary debt.

Paying off college loans is important. Also, try to avoid spending too much on housing by limiting rent or mortgage-related expenses

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Understanding Interest Rates and Your Financial Situation

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you need to achieve your goal, such as buying a house, obtaining a college education, or starting a business. Given the extra cost of interest, which can add up significantly over time, be sure that any debt you assume is affordable and worth the expense over the long term.

To a lender, interest represents compensation for the service and risk of lending money. In addition to giving up the opportunity to spend the money right away, a lender assumes certain risks. One obvious risk is that the borrower will not pay back the loan in a timely manner, if ever. Inflation creates another risk. Typically, prices tend to rise over time; therefore, goods and services will likely cost more by the time a lender is paid back. In effect, the future spending power of the money borrowed is reduced by inflation because more dollars are needed to purchase the same amount of goods and services. Interest paid on a loan helps to cushion the effects of inflation for the lender.

Supply and Demand

Interest rates often fluctuate, according to the supply and demand of credit, which is the money available to be loaned and borrowed. In general, one person's financial habits, such as carrying a loan or saving money in fixed-interest accounts, will not affect the amount of credit available to borrowers enough to change interest rates. However, an overall trend in consumer banking, investing, and debt can have an effect on interest rates. Businesses, governments, and foreign entities also impact the supply and demand of credit according to their lending and borrowing patterns. An increase in the supply of credit, often associated with a decrease in demand for credit, tends to lower interest rates. Conversely, a decrease in supply of credit, often coupled with an increase in demand for it, tends to raise interest rates.

The Role of the Fed

As a part of the U.S. government's monetary policy, the Federal Reserve Board (the Fed) manipulates interest rates in an effort to control money and credit conditions in the economy. Consequently, lenders and borrowers can look to the Fed for an indication of how interest rates may change in the future.

In order to influence the economy, the Fed buys or sells previously issued government securities, which affects the Federal funds rate. This is the interest rate that institutions charge each other for very short-term loans, as well as the interest rate banks use for commercial lending. For example, when the Fed sells securities, money from banks is used for these transactions; this lowers the amount available for lending, which raises interest rates. By contrast, when the Fed buys government securities, banks are left with more money than is needed for lending; this increase in supply of credit, in turn, lowers interest rates.

Lower interest rates tend to make it easier for individuals to borrow. Since less money is spent on interest, more funds may be available to spend on other goods and services. Higher interest rates are often an incentive for individuals to save and invest, in order to take advantage of the greater amount of interest to be earned. As a lender or borrower, it is important to understand how changing interest rates may affect your saving or borrowing habits. This knowledge can help with your decision-making as you pursue your financial objectives. $

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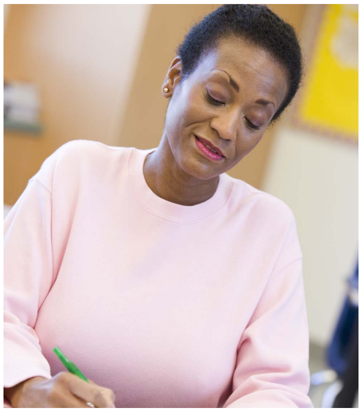
(principal, interest, insurance, property taxes, condo fees, etc.) to between 28% and 30% of your gross monthly income. When other short-term debt, such as car payments, student loans, and credit card bills are included, the debt limit guideline may rise to 36% of your gross pay.

For younger workers, retirement is often last on the list of financial concerns. However, if your employer offers a retirement plan with tax benefits, such as a **401(k)**, you may want to make the most of the opportunity. Pretax payroll deductions make contributing relatively painless. Try to contribute the maximum amount allowed—especially if your employer *matches* some, or all, of your contribution. If you don't have a retirement plan at work, consider opening an **Individual Retirement Account (IRA)** that can provide for *tax-deductible* contributions and *tax-deferred* earnings.

Settling Down

If settling down means marriage, you now have two financial situations to reconcile. Keep in mind that marriage establishes a *legal* relationship, and your spouse may have his or her own debt. Ideally, attempt to begin your new life together with a clear balance sheet.

Whether single or married, financial goals take on greater importance as you assume adult responsibilities. You and your spouse may choose to name each other as **beneficiaries** of **retirement accounts**, **annuities**, or **life insurance** policies. Also consider the protection offered by disability income insurance. In the event you or your spouse is unable to work due to an accident or illness, disability income insurance can provide a certain level of replacement income.



Although children present new and immediate demands on your time and financial resources, having dependents may motivate you to plan for the future. Two essentials include adequate **life insurance** and a **will** that names **guardians** for minor children.

You may also want to establish an education funding plan to help finance higher education. Many adults feel torn between saving for their children's college education and their own retirement. Starting early may allow you to do both.

Nearing Retirement

For many people, a comfortable retirement may require 75% to 80% of their pre-retirement income. The three-tiered components of retirement income consist of Social Security, employer-sponsored plans (e.g., 401(k)s, pensions), and personal savings. If you anticipate little or no income from Social Security or a traditional company pension, you will need to prepare early to make up the difference with savings and an employer-sponsored retirement plan.

A comprehensive estate plan, to minimize potential estate tax liabilities and to help ensure that your assets are transferred to your heirs according to your wishes, is also important.

It is never too early to begin building the foundation for your financial future. Good habits developed *now* can go a long way toward helping you achieve your financial goals. Regardless of your stage in life, be sure to consult a qualified financial professional to help you determine appropriate strategies for your unique circumstances. $