SF&PD
SOCIETY FOR FINANCIAL EDUCATION AND PROFESSIONAL DEVELOPMENT
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How Do You Know if You're Saving Enough?

Most people think when they start earning more money, they'll start saving more money. But what often happens is the more you make, the more you spend. If you want financial independence, you have to establish a savings routine. The more money you make, the more your savings rate needs to increase.

While it may seem like a daunting task, it can be accomplished. The only way to reach financial independence is to save and live within your means. Your savings should include retirement account contributions, matching funds from your company if available, cash savings, and any other investments.

Savings at Every Age

Your 20s: You are just starting out and, hopefully, you've found a good job that pays a reasonable salary. This is the beginning of the accumulation stage, so start by paying off any debt you have and work to save at least 10%–25% of your income. If your employer offers a 401(k) plan, start investing right away. Try to contribute as much as possible or at least as much as your employer will match.

Your 30s: Hopefully, you have now found out what you want to do for a living and have had a jump in income. You are still in the accumulation stage, so you should be increasing contributions to your retirement account and trying to contribute the maximum per year. By the end of your 30s, you'll want at least twice your annual salary saved. A simple example: If you're making $50,000 annually, you'll want to have $100,000 accumulated in savings by age 39. But remember this includes retirement accounts.

Your 40s: This is the decade of major responsibilities, as you probably have dependents. Your income

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April Is Financial Literacy Month

- ✔ Build financial empowerment through financial knowledge
- ✔ Identify your life financial goals, create a plan, and act
- ✔ Save and invest for unexpected expenses and retirement income
- ✔ Target the misuse of money and wastefulness
- ✔ Determine your financial values
- ✔ Determine your opportunity cost in financial decisions

How Do You Know?

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may have increased as you climbed the ladder at your job or moved to a new one. And even with the increase in expenses, you should also be increasing your savings rate. By the end of your 40s, you should have saved four times your salary. Now you will want to max out your contributions to retirement accounts as well as monitor your investments for performance.

Your 50s: You are now at your peak earning years and your saving rate needs to be at its highest. Your expenses are still pretty high; but by the end of this decade, you will most likely be an empty nester, and expenses should decrease. By the time you reach 59, you'll want to have saved seven times your income. Monitor your investments so you can make adjustments to increase your returns.

Your 60s: You're getting close to or have retired. Your mortgage may be paid off and expenses have decreased. Your saving should be at its peak, which is 10 times your income prior to retiring. You can now start to relax as you will receive distributions from your retirement accounts as well as Social Security benefits. You'll need to make sure that you are informed about distribution requirements of your retirement accounts.

Your 70s and beyond: Now all of your expenses are covered by your retirement account distributions and Social Security benefits. Hopefully, you are reaping the benefits of all those years of saving.

Watch for These Warning Signs

As you go through the journey to retirement, you may not be able to accumulate the level of savings you need, but you should have acquired a good amount of savings for a comfortable retirement.

Take stock of how much you are saving every year and look for warning signs that you are not saving enough. If you experience any of the following, you need to take a hard look at your financial situation to get on track:

- ✔ You have no idea how much money you're spending every month, which means you are most likely overspending.
- ✔ You don't have savings goals or a savings plan. If you don't have goals and a plan to achieve them, you will have a hard time saving for important milestones.
- ✔ You're living paycheck to paycheck. It's time to take a serious look at your finances to see what can be reduced or eliminated.
- ✔ You're putting off saving for retirement. It will get here quicker than you think, and this is the one thing you really need to start saving for as early as possible.
- ✔ You can't pay your credit card balance in full, which means you probably have significant debt.
- ✔ You don't have an emergency fund. You know the unexpected will happen and need to be prepared.

Please call if you'd like to discuss this in more detail. ❍❍❍

6 Signs You Need a Financial Plan

A clear financial plan helps you prepare for the future, brace yourself for the unexpected, and positions you to pursue your goals. Below are six signs it may be time for you to get a financial plan.

You're planning (or just had) a big life change. New job. New baby. New house. All of those milestones and more are signs you should take a big picture look at your finances. When your life changes in big ways, it often brings with it changes in how you approach money.

You're worried about your finances — and your future. If money worries keep you up at night, a financial plan can help ease your mind. Whether you have immediate worries or are just feeling uneasy about what tomorrow may hold, you can regain control over your life by having a clear direction.

You're making good money, but you're not sure where it goes. If you want to turn today's income into tomorrow's wealth, you need a financial plan. That way, you'll be able to take the money you're bringing in today and use it to create a secure future for yourself and your family.

You have financial goals, but you're not sure how to make them a reality. Does retirement seem like a distant dream? Do you wish you could upgrade to a bigger home, send your kids to college without taking on debt, or start a business? With a financial plan, you'll know what you need to do financially to make those dreams a reality.

You and your partner are fighting about money. If you and your partner can't see eye-to-eye on money issues, a financial plan might be part of the solution. Meeting with an objective third party can help you both recognize where you stand when it comes to your finances, and then negotiate a path forward that works for both of you.

Your investments and finances are getting so complicated, it's difficult for you to keep track of everything. Many people start out managing their investments and finances on their own. That often works for a time, but as your money and life get more complex, it can be difficult to manage all the details without help. ❍❍❍

Reevaluate Your Portfolio

Periodically, you should thoroughly review your portfolio to ensure it is still helping you work toward your investment goals. Follow these steps:

Review your current portfolio mix. List the current value of all your investments. Determine what percentage of your portfolio is held in stocks, bonds, cash, and other investments. Take a closer look at where the stock portion of your portfolio is invested.

Break out your stock investments by market capitalization (small-, mid-, and large-cap), by style (growth and value), by area (domestic and international), and by sector (technology, financial, utilities, energy, etc.).

Analyze each investment. Determine whether it still makes sense to own each investment. Don't let emotions get in the way. Review why you purchased each investment and whether those reasons are still valid.

Emotionally, it is difficult to sell an investment at a loss, but holding on until you get back to breakeven may not be the best strategy. It may never get back to that price or may take an excessively long time to do so. You may want to sell the investment and reinvest in another with better prospects. Instead of worrying about what you paid for the investment, decide whether you would buy it today at its current price.

Determine if changes are needed to your current allocation. If we've learned anything over the past few years, it's that your portfolio should not be highly concentrated in one area or sector. Instead, look to broadly diversify your portfolio. Some points to consider include:

✔ **Decide how much to allocate to stocks and bonds.** Your stock and bond mix is a major factor in determining your expected portfolio return and how much your portfolio will fluctuate with market movements. However, be careful not to let recent events cause you to allocate too much to bonds just to avoid stock market fluctuations. Make this decision based on your financial goals, risk tolerance, and time horizon for investing. If you are investing for the long term — say, 10 years or more — you probably still want a major portion of your investments allocated to stocks.

✔ **Reassess your stock allocation.** Is your stock portfolio too heavily weighted in technology stocks or blue chip stocks? Have you selected only growth stocks, ignoring value stocks? Do you prefer large-cap stocks, ignoring smaller stocks? The stock market moves in cycles, with different sectors outperforming other sectors at different times. Since no one can predict when one sector will outperform, it is typically best to broadly diversify your stocks over all areas.

Move your allocation closer to your desired allocation. When making changes, first consider the tax ramifications of the transactions. If you can make changes without incurring tax liabilities, you may want to make the changes immediately.

If substantial tax liabilities will be incurred, look for other ways to get your portfolio closer to your desired allocation. For instance, any new investments should be made in underweighted areas of your portfolio. Or you may be able to reallocate in your tax-deferred accounts, such as individual retirement accounts and 401(k) plans, where you typically won't incur tax liabilities.

However, if you can't get your allocation in line within a year using these approaches, you might want to sell some of the poor performers and reinvest the proceeds.

If you'd like help reevaluating your portfolio, please call. ❍❍❍

Tips to Teach Children to Save

Think of all the lessons parents teach their children, but what about learning to save? Short- and long-term savings are important life lessons that should start early and remain an ongoing conversation. Here are some tips you can use:

Wants versus Needs: To a child, most everything is a need. A toy, a new bike, and a video game are all needs to them, so the first important lesson of saving is helping them understand the difference between wants and needs. You'll want to explain that needs are the basics, such as food, housing, and clothing, and that anything beyond the basics are wants. You could use your own budget to help illustrate that wants are secondary to needs.

Their Own Money: To help your child become a saver, they need to have their own money. Giving your child an allowance in exchange for chores will be a step in helping them learn to save as well as understanding the value of work.

Set Goals: Setting savings goals is a way for your child to understand the value of saving and what a savings rate is. For example, let's say one goal is a $40 video game, and they get a weekly allowance of $10. You can help them understand how long it will take to reach that goal based on how much of their weekly allowance they put toward the goal.

A Place to Save: Kids need a place to save their money, so take your child to a bank or credit union to open a savings account. This will allow them to see how their savings grows over time, as well as the progress they are making toward their savings goals.

Track Spending: Knowing where your money goes is a big part of being a better saver. Have your child write down their purchases and then at the end of the month add them all up. Just like adults, this can be an eye-opener. Help your child understand that if they change their spending habits, they will be able to more quickly reach their savings goals.

Mistakes Are a Good Lesson: A parent's natural reaction is to step in to prevent mistakes, but part of learning to control money is letting your child learn from their mistakes. A bad purchase decision can be a great lesson to understanding that a savings goal will now take much longer than they thought based on decisions they made.
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Beneficiary Designations Override Wills

When was the last time you looked at your beneficiaries on your retirement accounts, insurance policies, annuities, and bank accounts? Many people forget to update their beneficiaries, especially if they've held the accounts for a long time. If you marry, divorce, or have other changes to your family situation, you need to update your beneficiaries.

Some people think their will or trust is all they need to ensure their assets go to the desired recipients. A beneficiary designation is a legally binding document that supersedes a will or trust. That means that regardless of your current family status or what your will or trust says, the assets will go to the beneficiary you named when you last updated it. And if you don't have anyone named as your beneficiary on these types of accounts, state laws will determine who receives the benefit.

It is also a good idea to get into the habit of reviewing them on an annual basis to ensure your assets will be distributed based on your wishes. ❍❍❍

Financial Thoughts

Companies with a lot of passive fund ownership are more likely to repurchase shares in order to boost their short-term stock price, subsequently harming performance over the long term. Higher passive ownership was shown to negatively impact the relationship between buybacks and future capital expenditures, employment, cash flow, and return on assets and equity (Source: Centre for Economic Policy Research, April 2020).

A study found that although retirement plays a role in alleviating some of the stress the body undergoes while working a manual labor job, when those workers retire they can accumulate health deficits faster than individuals whose jobs do not require manual work. The health of men working in manual labor was more positively affected after retirement than women. Individuals with low education, in blue collar jobs, and in physically or psychosocially demanding occupations develop new health deficits faster than white collar workers. People who perform manual labor jobs display on average almost 30% more health deficits than their counterparts who do not (Source: *AAII Journal*, September 2020).
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