MSM FINANCIAL STRATEGIES

Creating Customized Strategies For Achieving Your Financial Goals

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Revisit Your Asset Allocation

You should reassess your asset allocation periodically. To do so, follow these steps:

1. Review your desired asset allocation percentages. When designing your investment strategy, you probably decided what percentage of your portfolio to allocate to different investments. Review those percentages to see if they still make sense for your situation. Over time, how much you want to allocate to different asset classes will probably change as your personal circumstances change. However, don't make significant changes as a result of discomfort over market fluctuations. First, reevaluate these factors:

✔ **Risk tolerance** — Carefully assess your tolerance for risk so you invest in assets you are comfortable with.

✔ **Return expectations** — You need to set realistic return expectations for various investments to help ensure that you meet your investment goals. While past performance is not a guarantee of future results, reviewing historical rates of return can help you assess whether your return expectations are reasonable. Keep in mind that higher returns are generally accompanied by higher risk.

✔ **Time horizon** — The longer your investment period, the more risk you can typically tolerate. Investing for long periods through different market cycles generally reduces the risk of receiving a lower return than expected, especially with investments that can fluctuate significantly over the short term.

✔ **Investment preferences** — With such a wide variety of investments to choose from, you should understand the basics of each to decide which are appropriate for you.

In general, you should consider a more conservative allocation if you are older, have short-term

A Budget for Your College Student

Many students will first handle money without parental supervision during college. To help keep expenses down and avoid conflicts, you might want to develop a budget to guide your child's spending. As you go through the process, consider the following:

✔ First consider all potential expenses, including food, travel, clothing, entertainment, phone, periodicals, computer expenses, medical and dental expenses, and insurance.

✔ Develop a preliminary budget for the first couple of months of college. After your child has lived on his/her own for a few months, you can develop a more realistic budget.

✔ If your child has trouble sticking with the budget or can't account for large sums, have him/her keep a journal that details all expenditures.

✔ Consider providing your child with a debit card rather than a credit card.

✔ Have your child provide you with a written monthly comparison of his/her actual expenses to budgeted amounts. ❍❍❍

Asset Allocation

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needs for your funds, have low earnings, or are uncomfortable with investing. A more aggressive allocation may be appropriate if you have high earnings, are younger, do not need your funds for many years, or are an experienced investor.

2. Determine your portfolio's current allocation. You should consider all your investments, including taxable accounts, individual retirement accounts, and retirement plans at work.

3. Determine how much variation you are willing to tolerate in your asset allocation. It's unlikely that your actual asset allocation will equal your desired asset allocation due to varying market values and rates of return. Since it is difficult to maintain precise asset allocation percentages, decide how much variation you will tolerate. For example, you may monitor your portfolio more closely if an asset class varies by 5% of your desired allocation and rebalance when it varies by 10%.

4. Decide how to move your portfolio closer to your desired asset allocation. If you have not reassessed your asset allocation for a while, you may find that significant changes are needed to get your allocation back in line. However, you may not want to make drastic changes all at once. Instead, you may want to take a more gradual approach to shifting your asset allocation. For instance, you can make new investments in assets that are underweighted in your portfolio. Periodic interest, dividends, or capital gains distributions can be redirected to other asset classes rather than reinvested in the same asset. Any withdrawals can come from overweighted asset classes.

Please call if you'd like help evaluating your asset allocation. ❍❍❍

What Kind of Retirement Do You Want?

We all know the process. Estimate how must is needed in retirement (which can range anywhere from 70% to over 100% of preretirement income), determine available income sources, and then calculate how much to save annually to reach those goals. As you go through this largely mathematical exercise, however, don't forget the most important part. You need to give serious thought to the type of retirement you want — visualize what retirement will be like.

Retirement is no longer viewed as a time to slow down, but is now considered a new beginning in life. That means your current living expenses may have very little to do with your retirement expenses. To help you visualize your retirement so you can estimate retirement expenses, consider these questions:

✔ When do you want to retire? Will you realistically have the resources to retire at that age?

✔ Do you plan to stay in your current home, trade down to a smaller one, or move to a different city? If you plan to move, is the cost of living there more or less expensive than your present city?

✔ Will your mortgage be paid off by retirement? What about other debts?

✔ Will you continue to work after retirement? If so, will you work part- or full-time? Where will you work and how much can you expect to earn? Do you have any hobbies or interests that can be turned into paying jobs? Are you planning to start a business after retirement?

✔ How will you spend your free time? What hobbies will you pursue? How much and where will you travel? How much will all these activities cost?

✔ How will you pay for medical costs? Will your employer provide health insurance or will you need to purchase insurance to supplement Medicare coverage?

✔ Do you have any medical conditions that are likely to impact your quality of life in retirement? What would you do if you became physically disabled? Would your spouse take care of you, would you move in with your children, or would you go to a nursing home? How will you provide for long-term-care costs?

✔ How much of your income will be provided by personal investments including 401(k) investments? Are you confident you can invest so those investments will last your entire retirement?

✔ What would happen financially if your spouse dies? If you die, would your spouse be able to support himself/herself financially?

Answering these questions should give you a clearer picture of retirement. If you'd like to discuss this in more detail, please call. ❍❍❍

Myths about College Planning

The college planning, admission, and financial aid process can seem opaque to both students and their parents. And given all the concerns about rising tuition and confusion about how aid is allotted, it's not surprising that some myths have arisen about the best way to plan for college costs.

Myth #1: We Earn Too Much to Qualify for Financial Aid

Some families with high incomes and a lot of assets may indeed not qualify for need-based financial aid. But chances are, you aren't one of them. By some estimates, only 4% of households have too many assets to qualify for financial aid. The truth is financial aid formulas are complicated, and if you don't apply, it's hard to predict how much or what type of aid you might get. Filling out the Free Application for Federal Student Aid (FAFSA) as well as any institutional aid forms is almost always worth it.

Myth #2: I'll Never Be Able to Afford a Private School

There is no doubt private colleges and universities are expensive, and there's a lot of debate about whether they're worth the cost. But keep in mind that while the sticker price may be high, private schools typically have more money to spend on financial aid than their public counterparts. And if a student is exceptionally talented, a private school may offer generous financial aid to encourage them to attend. If your child is considering private schools, do research on the net price, not the sticker price, to get a sense of what it might really cost to attend. You should be able to find calculators to help make these estimates on schools' websites.

Myth #3: It's Better to Borrow Money from My Retirement Accounts Than to Take out Student Loans

Borrowing money from your 401(k) or other retirement accounts to pay for college is rarely a good idea. Unless you've oversaved for retirement (and few people have), you're going to need that money when you stop working. Pausing your contributions or drawing down your balance will set you back significantly. While you don't want to overburden your kids with debt, a small amount in student loans may give them skin in the game, so to speak — modest student loan debt at a low interest rate won't jeopardize your child's future. And by keeping your retirement savings safe, you'll be less likely to have to turn to your children for financial help in the future.

Myth #4: I'm Not Sure My Child Will Attend a Four-Year College, So I Shouldn't Bother with a 529 Plan

The funds you put in a 529 plan can be used for qualified expenses at a wide variety of schools, including community colleges and accredited trade and vocational schools. You can even use the money at some foreign schools. Plus, if your child ends up not needing the money, you can name a new beneficiary for the funds, like another child, your brother or sister, a niece or nephew — even yourself. In the worst-case scenario, you simply use the money for noncollege expenses, though that comes with a penalty. But whatever you do, don't let the chance that your child won't attend school stop you from saving.

Myth #5: My Child Is a Genius or Great Athlete Who Will Get a Scholarship

Scholarships are a great way to help for college, and more than $3 billion in aid for education is awarded to students every year. But unless your child is a true phenom, you can't be sure he/she will get a piece of that pie — or if he/she does, how much. Plus, you really should start saving for college when your children are very young.

Myth #6: We Should Put All the Money We Save for College in a 529 Plan

Not necessarily. A 529 plan has many advantages, like tax-free withdrawals for educational expenses. But you may want to diversify your savings. If your son or daughter does get a scholarship, drops out, or doesn't attend college, you can use those other savings however you want without paying a penalty (unlike a 529 plan).

Myth #7: I Should Put College Savings in My Children's Names

It certainly seems like it might be a good idea to keep your child's college savings in his/her own name. But that's not always the case. For one, college financial aid formulas generally see 20% of a student's total assets as being available to pay for education every year, compared to just 5.6% of a parent's assets. More assets in their name could translate into less financial aid for your child. Plus once your child turns 18, that money is his/hers to do with as he/she wishes (unless it's money held in a trust with restrictions on its use). And not all young adults will have the wisdom to use that money wisely.

Please call to discuss college planning in more detail. ❍❍❍

5 Estate-Planning Tips for Dependents

When you have people who are dependent on you, like children or elderly parents, you want to ensure they will be well taken care of in the event that you can no longer care for them. Here are five tips:

✔ **Hire an estate planner —** An estate planner will make sure you think of and lay out every aspect of your estate plan. Estate planners stay up-to-date on tax rules and other laws and regulations, so they can help you ensure that your plan is legally and financially sound.

✔ **Choose a guardian —** Choosing someone to take care of your children in the event that both you and their second parent are deceased is a huge decision to make and deserves great care and time. You want to choose a guardian who loves your children and has the ability to take care of them into their adulthood. That means a guardian who has the financial ability to care for your dependents, as well as the physical capacity to do so.

The goal of choosing a guardian is to make sure your children are loved and taken care of adequately, they receive a good education, their lives remain as stable as possible, and they receive emotional support to cope with your loss. Ask early (and often) if he/she is comfortable being the guardian of your child or children.

✔ **Develop a trust —** A trust is often used when people have minor children or dependents who are incapable of taking care of themselves. As the trustor, you put a trustee in charge of the beneficiary's property and/or assets until the beneficiary meets requirements such as reaching a certain age or milestone. Just like choosing a guardian, make sure you take time in choosing a trustee who is trustworthy and capable.

✔ **Start as soon as possible —** As soon as you have a child or otherwise become responsible for a dependent, it is important to get an estate plan in place to protect them in case of emergency.

✔ **Reevaluate often —** Any time major changes happen in your life that impact what you would leave behind and who you'd want to leave it to, revisit your estate plan.

You may have no control over when or how you will die, but you do have control over what happens to your dependents. Please call to discuss this further. ❍❍❍

How to Save on Premiums

There are numerous ways for you to save money on insurance premiums. Here are a few of the more common strategies:

✔ Many insurance companies offer a full range of policies, and you may able to save even more if you get your life, auto, homeowners, and disability insurance all through the same company.

✔ Switching to a higher deductible for some policies could save you significant sums.

✔ Insurance companies are willing to knock a few dollars off your insurance premiums for many reasons, so make sure to contact your insurer regarding premium reductions.

✔ While you don't want to be underinsured, you also don't want to be overinsured.

✔ Cell phone, identity theft, credit card, accidental death insurance, and extended warranties usually aren't worth it.

✔ Dedicate a few minutes to shopping around for quotes online or connect with a reputable independent insurance agent who may be able to point you to more affordable policies. ❍❍❍

Financial Thoughts

Approximately 47% of men who are retirement age or older will need long-term care in the future, compared to 58% of women (Source: U.S. Department of Health and Human Services, 2018).

In 1960, 10% of the U.S. population was over age 65. By 2040, 20% of the population will be over age 65 (Source: *Time*, 2018).

In 2017, the average annual cost of a nursing home stay was $82,000 (Source: Kaiser Family Foundation, 2018).

Approximately 40 million individuals are caring for older relatives. The typical family caregiver is a 49-year-old female (Source: *Journal of Financial Planning*, January 2018).

The average life expectancy in 1930 when Social Security was designed was 58 years for men and 62 years for women. Today, on average, a man turning 65 can expect to live to 84.3 years, while a woman can expect to live to 86.6 years (Source: Social Security Administration, 2017).

About 59% of the Social Security benefits of a 66-year-old couple retiring in 2016 will be required to cover retirement healthcare costs (Source: Wealthmanagement.com, November 2017). ❍❍❍

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