HELPING YOU UNDERSTAND THE COMPLEXITIES OF WEALTH MANAGEMENT AND PROVIDING SOLUTIONS AS UNIQUE AS YOUR GOALS

WEALTH MANAGEMENT NEWSLETTER

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In this issue:

SHOULD I PAY OFF MY STUDENT LOANS EARLY OR CONTRIBUTE TO MY WORKPLACE 401(K)?

For young adults with college debt, deciding whether to pay off student loans early or contribute to a 401(k) can be tough. It's a financial tug of war between digging out from debt today and saving for the future, both of which are very important goals. Unfortunately, this dilemma affects many people in the workplace today. According to a student debt report by The Institute for College Access and Success, nearly 70 percent of college graduates in the class of 2014 had student debt, and their average debt was nearly $29,000. This equates to a monthly payment of $294, assuming a 4 percent interest rate and a standard 10-year repayment term.

Let's assume you have a $300 monthly student loan payment. You have to pay it each month—that's non-negotiable. But should you pay more toward your loans each month to pay them off faster? Or should you contribute any extra funds to your 401(k)? The answer boils down to how your money can best be put to work for you.

The first question you should ask is whether your employer offers a 401(k) match. If yes, you shouldn't leave this free money on the table. For example, let's assume your employer matches $1 for every dollar you save in your 401(k), up to 6 percent of your pay. If you make $50,000 a year, 6 percent of your pay is $3,000. So at a minimum, you should consider contributing $3,000 per year to your 401(k)—or $250 per month—to get the full $3,000 match. That's potentially a 100 percent return on your investment.

Even if your employer doesn't offer a 401(k) match, it can still be a good idea to contribute to your 401(k). When you make extra payments on a specific debt, you are essentially earning a return equal to the interest rate on that debt. If the interest rate on your student loans is relatively low, the potential long-term returns earned on your 401(k) may outweigh the benefits of shaving a year or two off your student loans. In addition, young adults have time on their side when saving for retirement, so the long-term growth potential of even small investment amounts can make contributing to your 401(k) a smart financial move.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.

TOP FINANCIAL CONCERNS OF BABY BOOMERS, GENERATION XERS AND MILLENNIALS

Many differences exist among baby boomers, Generation Xers and millennials. But one thing that brings all three generations together is a concern about their financial situations.

According to an April 2016 employee financial wellness survey, 38 percent of boomers, 46 percent of Gen Xers and 51 percent of millennials said that financial matters are the top cause of stress in their lives. In fact, baby boomers (50 percent), Gen Xers (56 percent) and millennials (60 percent) share the same top financial concern about not having enough emergency savings for unexpected expenses. Following are additional financial concerns for each group and some tips on how to address them.

Baby boomers

Baby boomers cite retirement as a top concern, with 45 percent of the group saying they worry about not being able to retire when they want to. Although 79 percent of the baby boomers said they are currently saving for retirement, 52 percent of the same group believe they will have to delay retirement. Health issues (30 percent) and health care costs (38 percent) are some of the biggest retirement concerns cited by baby boomers. As a result, many baby boomers (23 percent) are delaying retirement in order to retain their current health care benefits.

Other reasons reported by baby boomers for delaying retirement include not having enough money saved to retire (48 percent), not wanting to retire (27 percent) and having too much debt (23 percent).

Generation X

While baby boomers are concerned about retiring when they want to, Gen Xers are more specifically worried about running out of money in retirement, with 50 percent of the surveyed group citing this as a top concern. More Gen Xers (26 percent) than baby boomers (25 percent) or millennials (21 percent) have already withdrawn money held in their retirement plans to pay for expenses other than retirement.

Besides worrying about retirement, 25 percent of Gen Xers are concerned about meeting monthly expenses. Forty-four percent find it difficult to meet household expenses on time each month, and 53 percent consistently carry balances on their credit cards.

Being laid off from work is another financial worry among Gen Xers, cited by 22 percent of those surveyed—more than cited by baby boomers or millennials. Gen Xers (26 percent) report that better job security would help them achieve future financial goals, which may help explain their worry about both future (retirement) and current (living) expenses.

Millennials

Unlike baby boomers and Gen Xers who worry about future financial needs, millennials seem to be more concerned about meeting current expenses. This concern has grown substantially for millennials, from 23 percent in the same survey conducted in 2015 to 35 percent in 2016. Millennials are also finding it increasingly difficult to pay their household expenses on time each month, with the number jumping from 35 percent in 2015 to 46 percent in 2016.

Considering the amount of debt that millennials owe, it's probably not surprising that they worry about making ends meet. Specifically, 42 percent of the millennials surveyed have a student loan(s), with 79 percent saying their student loans have a moderate or significant impact on their ability to meet other financial goals.

In an attempt to make ends meet, 30 percent of millennials say they use credit cards to pay for monthly necessities because they can't afford them otherwise. But 40 percent of those who consistently carry balances find it difficult to make their minimum credit card payments on time each month.

How each generation can address their concerns

Focusing on some basics may help baby boomers, Gen Xers and millennials address their financial concerns. Creating and sticking to a budget can make it easier to understand exactly how much money is needed for fixed and discretionary expenses as well as help keep track of debt. A budget may also be a useful tool for learning how to prioritize and save for financial goals, including adding to an emergency savings account and retirement.

At any age, trying to meet the competing demands of both short- and long-term financial goals can be frustrating. Fortunately, there is still time for all three generations to develop healthy money management habits and improve their finances.

In its survey, PricewaterhouseCoopers defined the generations as having these birth years: baby boomers: 1943-1960; Generation X: 1961-1981; millennials: 1982-1997. The U.S. Census Bureau and other groups often define these generational ranges differently.

Source: "Employee Financial Wellness Survey," PricewaterhouseCoopers LLP, April 2016.

WHAT ARE MY HEALTH CARE OPTIONS IF I RETIRE EARLY?

If you're eligible for an early-retirement package from your employer, determine whether post-retirement medical coverage is included. These packages sometimes provide medical coverage until you reach age 65 and become eligible for Medicare. Given the high cost of medical care, you might find it hard to turn down an early-retirement package that includes such coverage.

If your package doesn't include post-retirement medical coverage, or you're not eligible for an early-retirement package at all, you'll need to look into alternative sources of health insurance, such as Consolidated Omnibus Budget Reconciliation Act (COBRA) continuation coverage or an individual health insurance policy, to carry you through to Medicare eligibility.

Under COBRA, most employer-provided health plans (typically employers with 20 or more employees) must offer temporary continuation coverage for employees (and their dependents) upon termination of employment. Coverage can last for up to 18 months, or 36 months in some cases. You'll generally have to pay the full cost of coverage—employers aren't required to continue their contribution toward coverage, and most do not. Employers can also charge an additional 2 percent administrative fee.

Individual health insurance is available directly from various insurance carriers or, as a result of the Affordable Care Act, through state-based or federal health insurance marketplaces. One advantage of purchasing coverage through a marketplace plan is that you may be entitled to a premium tax credit if your post-retirement income falls between 100 percent and 400 percent of the federal poverty level (additional income-based subsidies may also be available).

Some factors to consider when comparing various health options are 1) the total cost of coverage, taking into account premiums, deductibles, copayments, out-of-pocket maximums and (for marketplace plans) tax credits and subsidies; 2) the ability to continue using your existing health-care providers (and whether those providers will be in-network or out-of-network); and 3) the benefits provided under each option and whether you're likely to need and use those benefits.

WHAT IT MEANS TO BE A FINANCIAL CAREGIVER FOR YOUR PARENTS

If you are the adult child of aging parents, you may find yourself in the position of someday having to assist them with handling their finances. Whether that time is in the near future or sometime further down the road, there are some steps you can take now to make the process a bit easier.

Mom and Dad, can we talk?

Your first step should be to get a handle on your parents' finances so you fully understand their current financial situation. The best time to do so is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis.

You can start by asking them some basic questions:

- What financial institutions hold their assets (e.g., bank, brokerage and retirement accounts)?
- Do they work with any financial, legal or tax advisors? If so, how often do they meet with them?
- Do they need help paying monthly bills or assistance reviewing items like credit card statements, medical receipts or property tax bills?

Make sure your parents have the necessary legal documents

In order to help your parents manage their finances in the future, you'll need the legal authority to do so. This requires a durable power of attorney, which is a legal document that allows a named individual (such as an adult child) to manage all aspects of a person's financial life if he or she becomes disabled or incompetent. A durable power of attorney will allow you to handle day-to-day finances for your parents, such as signing checks, paying bills and making financial decisions for them.

In addition to a durable power of attorney, you'll want to make sure your parents have an advance health care directive, also known as a health care power of attorney or health care proxy. An advance health care directive will allow you to make medical decisions according to their wishes (e.g., life-support measures and who will communicate with health care professionals on their behalf).

You'll also want to find out if your parents have a will. If so, find out where it's located and who is named as personal representative or executor. If the will was drafted a long time ago, your parents may want to review it to make sure their current wishes are represented. You should also ask if they made any dispositions or gifts of specific personal property (e.g., a family heirloom to be given to a specific individual).

Prepare a personal data record

Once you've opened the lines of communication, your next step is to prepare a personal data record that lists information you might need in the event that your parents become incapacitated or die. Here's some information that should be included:

- Financial information: Bank, brokerage and retirement accounts (including account numbers and online user names and passwords, if applicable); real estate holdings
- Legal information: Wills, durable powers of attorney, advance health care directives
- Medical information: Health care providers, medication, medical history
- Insurance information: Policy numbers, company names
- Advisor information: Names and phone numbers of any professional service providers
- Location of other important records: Social Security cards, home and vehicle records, outstanding loan documents, past tax returns
- Funeral and burial plans: Prepayment information, final wishes

If your parents keep some or all of these items in a safe-deposit box or home safe, make sure you can gain access. It's also a good idea to make copies of all the documents you've gathered and keep them in a safe place. This is especially important if you live far away, because you'll want the information readily available in the event of an emergency.

Don't be afraid to get support and ask for advice

If you're feeling overwhelmed by the task of handling your parents' finances, don't be afraid to seek out support and advice. A variety of local and national organizations are designed to assist caregivers. If your parents' needs are significant enough, you may want to consider hiring a geriatric care manager who can help you oversee your parents' care and direct you to the right community resources. Finally, consider discussing the specifics of your situation with a professional, such as an estate planning attorney, accountant and financial advisor.

WILL VERSUS TRUST: IS ONE BETTER THAN THE OTHER?

When it comes to planning your estate, you might be wondering whether you should use a will or a trust (or both). Understanding the similarities and the differences between these two important documents may help you decide which strategy is better for you.

What is a will?

A will is a legal document that lets you direct how your property will be dispersed (among other things) when you die. It becomes effective only after your death. It also allows you to name an estate executor as the legal representative who will carry out your wishes.

In many states, your will is the only legal way you can name a guardian for your minor children. Without a will, your property will be distributed according to the intestacy laws of your state. Keep in mind that wills and trusts are legal documents generally governed by state law, which may differ from one state to the next.

What is a trust?

A trust document establishes a legal relationship in which you, the grantor or trustor, set up the trust, which holds property managed by a trustee for the benefit of another, the beneficiary. A revocable living trust is the type of trust most often used as part of a basic estate plan. Revocable means that you can make changes to the trust or even end (revoke) it at any time. For example, you may want to remove certain property from the trust or change the beneficiaries. Or you may decide not to use the trust anymore because it no longer meets your needs.

A living trust is created while you're living and takes effect immediately. You may transfer title or ownership of assets, such as a house, boat, automobile, jewelry or investments, to the trust. You can add assets to the trust and remove assets thereafter.

How do they compare?

While both a will and a revocable living trust enable you to direct the distribution of your assets and property to your beneficiaries at your death, there are several differences between these documents. Here are a few important ones.

- A will generally requires probate, which is a public process that may be time-consuming and expensive. A trust may avoid the probate process.
- In order to exclude assets from probate, you must transfer them to your revocable trust while you're living, which may be a costly, complicated and tedious process.
- Unlike a will, a trust may be used to manage your financial affairs if you become incapacitated.
- If you own real estate or hold property in more than one state, your will would have to be filed for probate in each state where you own property or assets. Generally, this is not necessary with a revocable living trust.
- A trust can be used to manage and administer assets you leave to minor children or dependents after your death.
- In a will, you can name a guardian for minor children or dependents, which you cannot do with a trust.

Which is appropriate for you?

The decision isn't necessarily an either/or situation. Even if you decide to use a living trust, you should also create a will to name an executor, name guardians for minor children and provide for the distribution of any property that doesn't end up in your trust. There are costs and expenses associated with the creation and ongoing maintenance of these legal instruments.

Whether you incorporate a trust as part of your estate plan depends on a number of factors. Does your state offer an informal probate, which may be an expedited, less expensive process available for smaller estates? Generally, if you want your estate to pass privately, with little delay or oversight from a probate court, including a revocable living trust as part of your estate plan may be the answer.

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