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APRIL 2023

Get These Decisions Right

The sheer number of decisions required to manage our finances can seem overwhelming. But there are six basic financial decisions that can determine your financial life:

1. How you earn a living. Sure, we all want to enjoy our work. But within that parameter, why not choose a job that will pay more than another? Investigate your options:

✔ Are you sure you're being paid a competitive wage with competitive benefits? Pay attention to what is going on in your field.

✔ Do you have an outside interest or hobby that can be turned into a paying job?

✔ Can you get some additional training to help secure a promotion or qualify for another job?

2. How you spend your income. The amount of money left over for saving is a direct result of your lifestyle choices, so learn to live within your means.

✔ Analyze your spending for a month. Give serious thought to your purchasing patterns, trying to find ways to reduce spending.

✔ One of your most significant spending decisions will be your home. Many people purchase the largest home they can afford, often straining their budget. Purchasing a smaller home will reduce your mortgage payment as well as other costs.

✔ Prepare a budget to guide your spending. Few people enjoy setting or sticking to a budget, but inefficient and wasted expenditures can be major impediments to accomplishing your financial goals. A budget gives you a roadmap for spending your income.

3. How much you save. You should be saving a minimum of 10% of your gross income. Calculate how much you need to meet your financial goals and how much you should be saving on an annual basis. If you can't seem to save that much, go back to your spending analysis and make cuts. First, look for ways to reduce your spending by lowering the cost of your purchases. At some point, however, you may need to cut your discretionary spending, such as entertainment, dining out, and travel.

4. How you invest. The ultimate size of your portfolio is a function of two factors — how much you save and how much you earn

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Frankly Speaking

YES, it's that time again!

Taxes due on the 18th this year due to a legal holiday in DC, and October 15th if you're on extension. Either way, you must MAKE the contributions by April 18! The SECURE 2.0 increases the beginning date to age 73 in 2023 and to age 75 in 2033. This change does not apply to individuals who were age 72 or older on 31 December 2022. Any questions or concerns, PLEASE CALL ME!

DID YOU KNOW… If you contribute to a Company Plan, 401k or 403b you can also utilize an IRA too, based on your total adjusted gross income (AGI). The type of IRA may be dictated by whether you can make a deductible contribution or not. Check with your tax preparer! AND, if you have 1099 earned income as a contractor, you may be able to fund an SEP IRA (Self Employed Pension) increasing the amount you can put away for retirement. Ask your tax preparer or PLEASE CALLL ME FOR INPUT!

FR2022-1014-0207

Decisions Right

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on those savings. Even small differences in return can significantly impact your investment portfolio. Typically, investments with potentially higher rates of return have more volatility than investments with lower rates of return. While you don't want to take on excessive risk, you also don't want to leave all your savings in investments with little growth potential. Your portfolio should contain a mix of investment categories, based on your return expectations, risk tolerance, and time horizon for investing.

5. How you manage debt. Before you take on debt, consider the effect it will have on your long-term goals. If you are already having trouble finding money to save, additional debt will make it even more difficult. To keep your debt in check, consider these tips:

✔ Mortgage debt is considered acceptable as long as you can easily afford the home.

✔ Be careful about taking equity out of your home in the form of a home-equity loan. You might want to set up a home-equity line of credit for emergency use, but then make sure it is only used for emergencies. It may also make sense to use a home-equity loan to pay off higher interest rate consumer loans, but then don't run those balances up again.

✔ Never purchase items on credit that decrease in value, such as clothing, vacations, food, and entertainment. If you can't pay cash, don't buy them.

✔ If you must incur debt, borrow wisely. Make as large a down payment as you can. Consider a shorter loan period, even though your payment will be higher. Since interest rates can vary widely, compare loan terms with several lenders. Review all your debt periodically to see if less expensive options are available.

6. How you prepare for financial emergencies. Making arrangements to handle financial emergencies will help prevent them from adversely affecting your financial goals. Make sure to have:

✔ An emergency fund covering several months of living expenses. Besides cash, that fund can include readily accessible investments or a line of credit.

✔ Insurance to cover catastrophes. At a minimum, review your coverage for life, medical, homeowners, auto, disability, and personal liability.

✔ A power of attorney so someone is able to step in and take over your finances if you become incapacitated.

Making the correct choices for these six basic financial decisions will help put you on the right financial course. If you'd like help with these decisions, please call. ❍❍❍

Tips for the Sandwich Generation

If you are caring for young children and aging parents, you are part of the sandwich generation. This can be a very stressful situation. Developing a financial plan for your parents, your children, and yourself will help you navigate the challenges you face.

A Retirement Income Plan for Your Parents — If you haven't already, it's time to have a serious money talk with your parents. In addition to understanding their wishes for medical treatment and long-term care, you should also understand if they have adequate retirement income. Helping your parents develop a retirement income plan will help ensure that they can cover their expenses in retirement.

Research Long-Term Care Options — You should research ways to pay for long-term care if your parents need it. If your parents are in good health and still relatively young, they may want to consider purchasing a policy before it becomes cost-prohibitive.

Prepare an Estate Plan — If your parents do not have an estate plan, it's time to create one so that their wishes are met. Help them through this process, including establishing a will, trust, advanced health care directives, and medical and durable powers of attorney.

Inventory Assets — Help get your parents' financial assets in order by locating all important documents, including financial accounts, retirement accounts, wills, trusts, medical directives, powers of attorney, and digital assets.

Develop a College Savings Plan — As you switch the financial focus from your parents to your children, start by planning for their largest expense: their college educations. You should help your children plan for their life after high school. Engage your children in this process by having them research scholarships, grants, and work-study programs.

Your Turn — Sandwiched between your parents and children, you may not have developed your own financial plan. It is important to take the time to get your own financial house in order. Creating a financial plan with long- and short-term goals will give you peace of mind that your own financial life is on track. Please call if you'd like to discuss this in more detail. ❍❍❍

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.

The truth is that much conventional wisdom about college planning is more fiction than fact. Below, we bust some of the biggest college planning myths so you'll be better prepared to give your children the start in life they deserve.

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. The truth is, financial aid formulas are complicated, and it's hard to predict how much or what type of aid you might get if you don't apply. Filling out the Free Application for Federal Student Aid (FAFSA) as well as any institutional aid forms is almost always worth it, just to see what happens.

Myth #2: I'll never be able to afford to send my child to a private school. There's no doubt that 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 him/her to attend. If your child is considering private schools, research 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 a school's website.

Myth #3: It's better to borrow money from my retirement accounts for tuition than to have my child take out student loans. Borrowing money from your 401(k) or other retirement accounts to pay for college is not always 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 — and modest student loan debt at a low interest rate won't jeopardize your child's future. By keeping your retirement savings safe, you'll also be less likely to have to turn to your children in the future for financial help.

Myth #4: I'm not sure my child will attend a four-year college, so I shouldn't bother to set up 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 a great athlete. I'm sure they'll get a scholarship, so I don't need to save. Scholarships are a great way to help with college, and a significant amount in gift aid for education is awarded to students every year. But unless your child is a true phenom, you can't be sure he'll get a piece of that pie — or how much, if he does. Plus, you really should start saving for college when your children are very young, well before you have any idea of whether they're math geniuses or football stars.

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 gets 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 a good idea. 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/her to do with as he/she wishes (unless it's money held in a trust with restrictions on its use). Not all young adults will have the wisdom to use that money wisely. ❍❍❍

Emotional Issues That Prevent Estate Planning

Many people have a difficult time preparing for what happens to their estate after they die. There are many issues that must be faced to prepare a will or a trust, and for some, these issues can become emotional hurdles. If it is important to you to protect your loved ones and your estate when you die, you need to acknowledge these emotions and accept that they are just part of the process.

Facing Mortality

Death is not something that anyone really wants to talk about, but it is inevitable. Some are superstitious that even saying the word death might cause it to actually happen. There really isn't a solution to your fears, but you can at least be reassured that by developing a plan you will be taking care of your loved ones.

Not Being in Control

Many think of estate planning as relinquishing control of their assets, when it is actually quite the opposite. Developing a will or a trust will ensure that your assets will be handled exactly the way you want them to be handled. There are approaches to developing an estate plan where you can maintain control while protecting your assets.

Family Decisions

Depending on your family's situation, there are many decisions that have to be made that can cause family friction. Who should be the executor? What should you leave to each family member? Who is best suited to take over the family business? Does one child need more financial help than others? Should all your children be treated equally?

These are difficult issues, but keep in mind if you don't make them, you could leave your loved ones with a mess and the potential that your family could be torn apart by arguing over your estate.

Costs

Costs to develop an estate plan will vary depending on your family's situation. Think of your estate plan as a gift to your family and peace of mind for you that your final wishes will be carried out. Make sure you have a full understanding of the costs before proceeding with the development of the plan. ❍❍❍

Diversifying All Your Assets

✔ **Your most significant asset is probably your ability to earn an income.** If you work for a company in a volatile industry, your spouse might want to seek employment at a more stable company. No matter where you work, don't purchase too much of your company's stock, even if it is through a 401(k) plan. Since your current and future income potential is closely tied to the company you work for, you want to diversify your other assets.

✔ **Keep an eye on the outlook for your home's value.** Your home's appreciation potential is often tied to economic growth in your area. If your area is dominated by a certain industry, the prospects for that industry can also impact your home's value. Thus, you may not want to own stocks in that same industry.

✔ **Adequately diversify your investment portfolio.** Typically, you do not know which asset class will perform best on a year-to-year basis. Diversify your investment portfolio among a variety of investment categories, such as stocks, bonds, cash, real estate, and other alternatives. Also diversify within investment categories. ❍❍❍

Financial Thoughts

Between 1970 and 2019, the proportion of publicly traded companies with negative earnings increased from 18% to 54%. This trend is most prevalent in wealthier countries. It is strongest in the manufacturing sector, services sector, and public administration sector and less apparent in the finance and insurance industries. Negative earnings are the result of companies attempting to build up their customer base to a certain level. Since the marginal value of a customer has increased with the rise of technology, companies are incentivized to spend more resources on acquiring new customers. Many companies put more resources to customer capital investment, leading to many companies posting negative net earnings despite having positive gross earnings (Source: *AAII Journal*, August 2022).

While participation in a defined-benefit plan increases financial security in retirement, access to pensions fell significantly over the career span of the baby boomer generation. Access to defined-benefit plans was common for those born between 1920 and 1940, but the share of people with access declined sharply thereafter. The youngest baby boomers, born in 1965, have largely worked in jobs offering no access to pensions (Source: *AAII Journal*, April 2022). ❍❍❍