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financial $UCCESS

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Saving and Life Planning

Everyone is unique, so there's no such thing as one financial plan that will suit everybody. But that doesn't mean that there aren't some broad guidelines to fit common situations. So, when it comes to your savings, here are some benchmarks to indicate whether you're following the right priorities and are on track for meeting your financial goals:

In your twenties. Typically, this is the age when you're likely to have the lowest income in your working life, but also the fewest dependent-related expenses. At this stage, you should have two top priorities: First, you should concentrate on building an emergency fund equal to three to six months of living expenses held in short-term savings vehicles.

Second, you should begin putting money into an individual retirement account (IRA) or 401(k) retirement plan. The advantage of beginning to save for retirement at this age is time: in a tax-deferred account, even relatively small amounts can grow into significant assets when you have 35 to 40 years to harness the power of compounding. For example, if you contribute just $2,000 a year to an IRA and it grows 8% a year, after 30 years it could be nearly $227,000, and more than $518,000 after 40 years. *This example is provided for illustrative purposes only and is not meant to project the performance of an actual investment.*

If you're married, you may have a third priority: saving for a down payment on a house. It's best if you can accumulate 20% of the price of the house to avoid having to pay mortgage insurance, but whatever you can accumulate will help keep your mortgage payments lower.

In your thirties and forties. If you have children, it's a good idea

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Why Do Interest Rates Fluctuate?

✔ **Economic conditions** — In periods of economic growth, businesses require large amounts of debt to finance increases in working capital and fixed assets. This increase in demand coupled with increased consumer borrowing puts pressure on interest rates to rise.

✔ **Monetary policy** — The Federal Reserve attempts to assist the economy in growing at a stable rate with low inflation. Their actions, including buying or selling Treasury securities in the open market, raising or lowering the discount rate, and changing reserve requirements, impact the level of interest rates.

✔ **Expected inflation** — The market interest rate on a risk-free security has two components — the real rate of return plus an inflation premium. Investors' expectations about the future rate of inflation impact the level of interest rates.

✔ **Federal deficit** — Since the federal government is such a large borrower in our economy, significant changes in the amount that is being borrowed can impact overall interest rates. ❍❍❍

Saving

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to be saving for their education. Consider a tax-advantaged 529 college savings plan that you can invest in the stock market. The principle here is that if you have more than five years before college bills start coming due, you can afford to take some risk to potentially achieve a higher rate of return than you might from bonds or other "safer" investments.

Now you should begin to ramp up your contributions to your retirement accounts. The more you can put aside now the better, as you still have 25 to 30 years of compounding to enjoy. Your emphasis should still be on the stock market; although by your late forties, you might consider increasing your bond investments to guard against losses due to market shocks.

In your fifties. This is normally the time when people make their largest contributions to their retirement accounts, because their incomes are close to the highest of their careers; and if they have any children, they're typically out of college and on their own.

Federal limits on annual contributions to retirement plans are more generous at this age, too. For example, as of 2012, below age 50, there's a ceiling of $5,000 for contributions to IRAs and $17,000 to 401(k) plans; but at age 50, those limits increase to $6,000 and $22,500, respectively.

It takes in-depth calculations to determine how much your retirement portfolio should be and whether you're on track to meet the accumulated value of the nest egg you'll need to retire. That said, it's not unusual for people who are in their 50s to have accumulated only about half of what they'll need by age 65, yet still be on track for a well-funded retirement. (If your account balances are considerably less than half of what you'll need, you might have some catching up to do, or it might be necessary to consider retiring at an older age.)

In your sixties. This is the home stretch of the period during which you acquire assets for retirement. As you enter this decade of your life, you should still be contributing more than you ever have to your retirement accounts.

With your retirement date drawing closer, it is important to consider reshaping your portfolio to include greater percentages of lower risk investments.

It's never too early to create or update your financial plan. We're here to help. ❍❍❍

Is the U.S. Past Its Savings Crisis?

From the 1990s until just a few years ago, the U.S. was experiencing a savings crisis. People were spending nearly all the money they earned and more, by borrowing on credit cards and the equity in their homes. In late 2005, the U.S. saving rate officially went negative.

As a result, the federal government, corporations, and homebuyers had to rely on foreign investors purchasing American debt to fuel their spending. There was a chorus of woes that the binge would catch up with us, and the U.S. economy was destined to a future of weaker growth. Then came the recent recession, plummeting stock and real estate prices and sending unemployment to nearly 10%.

If you define the health of U.S. savings in terms of the net worth of the American consumer, we're still a long way away from our peak just a few years ago. But if you define the health of U.S. savings in terms of the percentage of their earnings that Americans are socking away, the picture is much rosier. According to the U.S. Bureau of Economic Analysis, Americans are saving about 6% of what they earn, largely in an effort to replenish their accounts. That's close to the 7% we averaged throughout the 1960s, 1970s, and 1980s, and bodes well for the U.S. economy — if we can sustain it.

If you're among the unemployed, the good news about the U.S. saving rate is cold comfort. Still, it provides a glimmer of hope for the economy's future growth. Savings are a major contributor to growth, because they provide a capital base for business to invest in new equipment and productivity. In general, the greater the pool of available capital, the lower interest rates borrowers have to pay.

But you don't have to be an economist to understand why it is so important to you and your family to save money. It's the best way to provide financial security, now and in the future. A "rainy day" fund of 3–6 months of expenses saved in safe, highly liquid accounts will help you weather the storms that always come, from an unexpected vehicle repair to job loss or illness. And saving — in special tax-advantaged plans for education to 401(k)s and IRAs for retirement — leverages the power of compounding in the market to help you fund your future.

Are you doing all you can to save? Are your investments working as hard for you as you are for your paycheck? From finding ways for greater tax efficiency to potentially increasing your returns, please call for help. ❍❍❍

Your Plans for Retirement

How much will you need to live a comfortable retirement? It's a question that can't be answered without giving serious thought to how you really want to spend your retirement.

Retirement is no longer viewed as a time to slow down, but is now considered a new beginning in life. Thus, your current living expenses may have little to do with your retirement expenses. However, keep in mind that retirement often proceeds in stages:

✔ **An active phase**, when the retiree is in good health and actively pursues travel and hobbies. This is typically the most expensive retirement phase.

✔ **A passive phase**, when the retiree's energy starts to wane. Life starts to slow down, and living expenses typically decrease.

✔ **A final phase**, when medical conditions often result in subsistence living. This is typically a more expensive time than the passive phase due to increased medical expenses.

To help you visualize your retirement so you can estimate retirement expenses, consider these questions:

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

2 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 more or less expensive than your present city?

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

4 Will you continue to work after retirement? If so, will you work part-time or full-time?

5 How will you spend your free time? What hobbies will you pursue? How often and where will you travel?

6 How will you pay for medical costs?

7 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? How will you provide for long-term-care costs?

8 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? How much of an investment loss could you tolerate without changing your retirement lifestyle?

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

Special Trusts for a Special-Needs Child

One of the most significant financial planning challenges a family can face is providing support for a special-needs child after the parents' death.

One consideration is to establish a trust. Whatever type of trust is chosen, it should be carefully drafted so it does not interfere with government aid. If the special-needs child's interest in a trust is considered an available resource, it may put that child over the minimum asset and/or income requirements. Avoid jeopardizing the child's basic necessities — such as food, shelter, or clothing — because those needs are generally covered through government programs. The trust fund should be used to supplement those programs

There can also be a provision in the trust to terminate it if eligibility for assistance is cut off because the trust is considered an available resource. The assets would then be distributed to other beneficiaries. By doing this, the special-needs child would have no resources and should qualify for benefits.

Parents of special-needs children are naturally concerned with providing for the "extras" not covered by government programs. The trust could be limited use for extra expenses not covered by government aid, such as recreation.

The trustee could be instructed to care for the special-needs child first before making payments to other beneficiaries, or separate trusts can be set up for each beneficiary. By doing this, the trustee pays for needed expenses out of the special-needs child's trust instead of reducing the shares of other beneficiaries.

There are no easy answers to the problem of how to best provide for a special-needs child. Please call if you would like more information if you are challenged with special needs in your estate plan. ❍❍❍

Chickpea Chocolate Chip Cookies

Adapted from *Deceptively Delicious* by Jessica Seinfeld

Ok, don't run away screaming. These are a favorite, and it's a great way to add sweets into your day but also add a nutty flavor and nice bit of fiber as well. They are delicious hot out of the oven, and they reheat very well; so for the day after, heat them up for 10 seconds in the microwave and get a big cup of milk. I would say you could enjoy them for breakfast for a few days, but they don't last that long! After you've had these, you'll think fondly of them every time you have a "normal" chocolate chip cookie and wish the cookie you're eating had that extra special something in there. For kids, I tell them the chickpea is a golden nugget, and they love it!

Non-stick cooking spray (canola is a good choice)
1 cup (tightly packed) brown sugar
¾ cup butter (no salt added, if possible)
2 large egg whites
2 t. pure vanilla extract
1 can (15 oz.) chickpeas, drained and rinsed
2 cups semi-sweet chocolate chips*
2 cups all-purpose flour
½ cup old-fashioned oats
1 t. baking soda
¼ t. salt (optional)
***M&Ms or Peanut M&Ms are yummy in place of the chocolate chips**

Preheat your oven to 350° and coat a baking sheet with cooking spray. In a large mixing bowl, use an electric mixer to beat together the sugar and butter on medium speed until smoothly blended.

Beat in the egg whites and vanilla. Add the chickpeas and mix. You don't have to actually mash them, but you can if you want to. Add the chocolate chips and mix.

Add the flour, oats, baking soda and salt. Mix on low speed.

Drop the dough in tablespoon-sized dollops onto the baking sheet, and space them approximately 2 inches apart. They grow larger while they bake.

Bake until the cookies are golden brown and just set, approximately 11–13 minutes. They will look a little moist, but they will continue to cook after you pull them out of the oven. Don't overbake them.

Transfer to a rack to cool. These store for three days in an air-tight container. ❍❍❍

Updates from Investment Answers

You may have noticed a name change on our newsletter! This is the first official newsletter since our office has re-branded from Brookstone Financial to our new company name, Investment Answers.

While some of our contact information has changed, none of your services should be interrupted in any way. Our goal is for all of your services to increase in quality!

Along with our new name, please note the changes to our Contact Information.

For all client inquiries:
Client Relations Desk 502-741-1817
admin@investmentanswers.net
Toll Free: 855-741-8747

As always, you can contact your advisor, R. Travis Terlau directly at **502-741-8747**.

Our new website address:
www.InvestmentAnswers.net. The new website will be live as of February 1, 2012.

We have a new member to our staff! **Amy Lindroth** is leading our Client Relations Desk and she is here to support you in any needs or questions that you may have for your accounts. You can contact her directly at the Client Relations Desk. ❍❍❍

New Year Reminders

As the holiday season draws to a close, it's important to keep your investments up to date.

Did you have the joyous occasion of a new baby or a new grandchild added to the family? Was there a blending of families recently? Do you need to make beneficiary changes to any of your life insurance policies or to your IRAs?

Has your salary increased this year and have you increased your personal disability income policy to reflect that? If you are saving the additional dollars you earn, you are in great shape. If you simply increased your spending, consider revisiting your budget to find out how you can focus on saving more, if that is your goal.

Is there a large purchase you would like to make or a project you would like to undertake? Is there the possibility of a large monetary gift that you are considering giving to a loved one or a charity in the upcoming year? Do you need help finding alternative investments or income streams to supply funds for these projects?

Thank you for your continued business and for the many introductions to your family and friends. We look forward to 2012 as our firm evolves and rolls out many new services and features for you to enjoy. ❍❍❍