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FALL 2014

How Much Flexibility Is Too Much?

When it comes to flexibility in a financial plan, it's a delicate balancing act: it is important to maintain enough flexibility that your financial plan can accommodate unexpected events that are out of your control. On the other hand, a sound financial plan needs to be firmly grounded by factors you can control so that even in the face of unexpected events, following your financial plan gets you to where you want to be.

When you develop a financial plan, you have to make certain assumptions, many of which are out of your control. Yet you can develop a financial plan with assumptions about these factors even in the absence of a crystal ball.

Taxes — The notoriously complicated U.S. tax code will affect your financial plan in a number of ways. For one, your effective tax rate will change as your income changes. Also, changes to the tax code itself can affect your financial plan, often dramatically. Fortunately, changes aren't typically made every year; and because Congress sets tax policy, most changes in the tax code are announced in advance of taking effect — allowing you time to plan how those changes might impact your financial plan.

Income — We all hope, of course, that our income will rise as we move forward in our careers. Typically, those kinds of income changes are predictable. More dramatic yet still predictable income changes can happen when one spouse voluntarily stops or starts working. The loss of a job or dramatic decrease in work hours can cause unexpected changes in income.

Health — Your health and the health of your spouse are significant factors in your financial plan for two reasons: first, because health is a big determinant of one's ability to

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Organizing Your Estate

Estate planning is an ongoing process that entails careful recordkeeping, review, and updates for the rest of your life to keep up with changes in the markets, laws, and your family. When you've finished creating the plan, the next step is to make it possible for your survivors to activate it easily and confidently when the time comes. And that means organizing your estate so all those documents are readily available.

While it isn't necessary or even desirable to keep every piece of paper documenting your financial life, keeping the most important documents well organized can save significant time for settling your estate.

Recognize that it's not just the estate documents you've created that you have to organize. It's also a wide array of documents that serve as proof of purchase and ownership of your assets and document your and your spouse's key life events. One of the best ways to organize them is to collect all important papers per category, and create a master document that shows where these forms are kept. We have created a template document on our website Media Page called "Peace of Mind Checklist" that we encourage you to fill out thoroughly. Share this document with those in your family who will have to administrate your estate if your are unable to do so. We also highly recommend writing a Letter of Instruction that contains first steps that need to be taken. If you have any questions or need help with this, please let us know. We're happy to help. ❍❍❍

How Much Flexibility?

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earn income; and second, because health-care costs are often one of the largest expenses, especially for older people. As you age, it's important to think about changing your assumptions about your health. Maybe you reduce the income you expect because you won't be able to work long hours. Or you increase the health care-related expenses you plan for. You can also take steps to mitigate the impact of health changes.

Life Events — Beyond job losses and health events that can affect your financial plan, other major life events can have a big impact as well. Whether it's good or bad, expected or unexpected, events like the birth of a child, marriage or divorce, a spouse's death, or a relocation will affect your financial plan. Some you can plan for, some you can't; the point is to be aware that these kinds of events will impact your financial plan.

Economy — For many, our financial plans are based on the assumption that our investments will earn a certain average return in the market. Those assumptions affect decisions we make about our plans; for example, the amount you need to save every month to retire at age 70 may be larger or smaller the higher or lower your assumption about investment returns. The best way to make these assumptions is to base them on long-term historical returns in relevant market indices.

Because there are so many factors affecting your financial plan that you can't control, it's critical to know the factors you can control and to stay on track with your plan in those areas.

Live within your means — When you keep your expenses (including savings and investments) less than your income, you give yourself more flexibility to accommodate unexpected changes that you can't control. If you have some breathing space in your budget every month, you can more easily accommodate, for example, a higher tax rate or economic downturn without having to alter your financial plan.

Have a rainy day fund — Have at least three to six months worth of living expenses in an easily accessible, liquid fund that you can draw upon in the event of a rainy day — an emergency or unexpected situation. This savings should be set aside from all other savings and investments and only used for true emergency expenses — like in the case of a job loss or illness. With an adequate rainy day fund, you can deal with unexpected events without having to erode your financial plan.

Revisit your plan regularly — The number-one key to achieving your financial goals is to review and, if necessary, revise your financial plan regularly — at least once a year. That way, you can make adjustments for all the factors out of your control that have changed for better or worse. If you haven't revisited your financial plan in the last year or if you need to develop one, please call. ❍❍❍

Contributing to Spousal IRAs

A spousal individual retirement account (IRA) allows a nonworking spouse to contribute to an IRA, even though the spouse has little or no earned income. Here are the basics:

✔ To be eligible to contribute, the couple must be legally married at tax year-end and file taxes jointly. The couple's combined earned income must equal or exceed the combined IRA contribution.

✔ Contributions can be made to traditional IRAs as long as the owner is under age 70½, while there is no age limit for Roth IRAs.

✔ In 2013 and 2014, the maximum contribution to an IRA is $5,500, with an additional $1,000 catch-up contribution for individuals age 50 and over.

✔ For traditional IRAs, if the working spouse is covered by a qualified retirement plan but the nonworking spouse is not, the contribution for the nonworking spouse is phased out once adjusted gross income (AGI) is between $178,000 and $188,000 in 2013 ($181,000 and $191,000 in 2014) and totally phased out once income exceeds $188,000. If you both have earned income equal to at least the maximum IRA contribution amount and are both covered by a qualified retirement plan, your contribution is phased out at joint AGI between $95,000 and $115,000 in 2013 ($96,000 and $116,000 in 2014). If neither of you is covered by a qualified plan, both of you can make a deductible contribution regardless of your AGI.

✔ For Roth IRAs, eligibility is phased out for AGI levels between $178,000 and $188,000 in 2013 ($181,000 and $191,000 in 2014). It doesn't matter whether your spouse is covered by a qualified retirement plan at work.

Contributing to a spouse's IRA may be as beneficial to the working spouse as to the nonworking spouse, since the assets are likely to be shared during retirement. Please call if you'd like to review whether you or your spouse is eligible to contribute to a spousal IRA. ❍❍❍

Making Sense of Government Deficits and Debt

Both the federal government's budget deficit and total indebtedness are at or near record highs in terms of their dollar amounts. The word deficit applies to a budget condition, while debt refers to how much an entity owes. A budget can be balanced, run a surplus, or run a deficit, depending on whether the government spends the same amount as its revenue over the budget period, less, or more.

The federal government's fiscal year runs from October 1 through September 30 of the following year. Just because the government spends more than its revenue one year doesn't lock it into the same situation the following year. But when a government spends more than it earns in a given fiscal year, it must make up the shortfall, either by using savings or borrowing.

The federal government projects that as of the end of September 2013, it ran a deficit of approximately $973 billion dollars. That's less than recent years ($1.09 trillion in 2012, $1.30 trillion in 2011, and $1.29 trillion in 2010). The record was set in 2009, when the federal government ran a deficit of $1.41 trillion.

The federal government borrows by selling Treasury securities with maturities that range from 30 days to 20 years. As of the end of March 2014, the federal government had total debt of $17.5 trillion. In dollar terms, that's the largest amount of debt in U.S. history.

Deficits: The Dollars Alone Don't Tell the Whole Story

It's important to understand, however, that the total dollar value of the deficit is relatively meaningless when taken out of context of the size of the economy and the fluctuating history of U.S. government debt. Economists recognize that the real measure of both the deficit and the debt is how large they are compared to the size of the U.S. economy and historic context.

Since 1900, the federal government has run a budget surplus 33 times and a budget deficit 80 times. The last string of surpluses was from 1998 through 2001. The 2013 deficit will be the 81st since 1900, and the 12th in a row. However, when compared to the size of the economy, these deficits are by no means the largest. That record was set in the war year of 1943, when the deficit reached 28.1% of gross domestic product (GDP). In 2009, the largest year for a federal budget deficit since World War II, the deficit equaled 10.1% of GDP; the 2013 deficit is an estimated 6% of GDP.

Federal Debt: It Fluctuates

Just as with federal deficits, the true significance of government debt lies not in the number of dollars, but in the ratio of dollars of debt to the U.S. GDP. While the current federal debt level of $17.5 trillion is the highest on record in dollar terms, at about 107% of estimated GDP for 2013, it's still far off the record of nearly 122% in 1946, the year after World War II ended.

Since 1900, federal debt as a percentage of GDP has fluctuated in three great pendulum swings. In 1900, it stood at 20.4% but then fell to a low of 7.3%, only to rise to a peak of nearly 35% by 1919, the year after the end of World War I. In the next swing, the debt to GDP ratio fell to a low of 16.3% in 1929 then rose to its all-time high of 122% in 1946. It took 35 years for the ratio to reach its next low of 31.8% of GDP in 1981. Since then, it took four years to climb above 40%, a total of 10 years to reach above 60% in 1991, and a total of 32 years to reach its current level.

A quick review of the last 113 years of federal deficits and debt levels reveals a number of patterns:

- While deficits are more common than surpluses, they spike in response to national emergencies, specifically wars and severe economic contractions.
- Deficits were twice as common as surpluses until the administration of Franklin Delano Roosevelt; since then, deficit years have outnumbered surplus years by more than four to one.
- Debt peaks are driven by the same emergencies as deficits.
- Debt levels have fluctuated, but have fallen to higher lows after each peak.

In spite of these patterns — or perhaps even because of them — the U.S. economy experienced its greatest growth after World War II. In neither the relative size of deficits nor debt has the U.S. touched previous highs, and economists have no answer to the question of how much debt is too much for a country like the U.S.

The political consensus among both Democrats and Republicans is that federal debt and deficits cannot continue to grow at their recent rates without doing harm to the economy. The difference between the two parties is whether to prioritize job creation (perhaps financed by more government debt) and wait to rein in the deficit and debt until after the economy is stronger, or to start slashing government spending now, even at the cost of higher unemployment. ❍❍❍

Butternut Squash Pine Nut Muffins

Makes 12 Muffins Freezable Adapted from *Parenting Magazine*, Sept., 2011

I have used Acorn Squash, Sweet Potato, and Pumpkin as a replacement for Butternut Squash many times and they work wonderfully as a substitute. You can use baby food as a quick way to have a puree on hand, or you can roast them in the oven until soft. Running any squash through a food processor is quick and easy; and it can be frozen in ½ cup amounts in a snack bag to use later for pancakes, sauces, and breads.

½ cup chopped or puréed butternut squash

1 cup light brown sugar

2 eggs, whisked (Can be substituted with 2 Tbs. of honey or vanilla yogurt)

1/8 tsp. salt (optional)

1 ¼ cup flour

1 tsp. baking powder

½ tsp. cinnamon (pumpkin spice and allspice are other delicious options)

6 Tbs. canola oil

¼ cup pine nuts, toasted (optional)

Directions: Preheat a skillet and lightly toast your pine nuts. Set aside to cool. Line a muffin pan with paper cupcake liners.

Preheat your oven to 350˚. In a bowl, mix your squash puree, brown sugar, eggs, and oil. In a separate bowl, mix together your dry ingredients: salt, flour, baking powder, and cinnamon.

Slowly fold the wet ingredients into the dry ingredients until combined then add in the pine nuts and do one last bit of stirring. If you want to go decadent, you can sprinkle chocolate chips or dried fruit into your mixture before you bake.

Fill each muffin cup equally. Bake for 20–25 minutes until a toothpick comes out clean. Let them cool on a wire rack.

Investment Answers News

Not only is it 4th Quarter of 2014, but it is also Election Season! With so much happening year-end, it's easy to put aside those outstanding To-Do Lists for a later time.

If there's one thing we have learned from being in the financial and insurance industry, it's always best to be diligent with tying up loose ends. Months can turn into years and then your best laid plans may not be executed.

Start early in your time of reflection. Have any significant Life Events happened in your life recently? Common Life Events: Births, Deaths, Divorce, Marriage, Job Changes, Planning to Retire, Returning to Work, Change in Health, Change in Income Needs, Considering Taking Social Security, Offered a Lump Sum Buyout, CDs Due, Bonds Called.

Have you been considering retirement at the end of 2014 but are unsure if you can afford to retire? Retirement Income Planning is one of the most important services Investment Answers can offer. As Travis always says, "There's not too much you can change when you're dead."

Contact our office for a Year-End Review. You have a financial advocate that is available to you. Leverage our services to help create and sustain the retirement you've imagined.

Financial Thoughts

Approximately 28% of Americans say they make less now than they did five years ago (Source *Money*, March 2014).

The average out-of-work individual remains unemployed for nine months (Source: *Money*, March 2014).

In a survey of individuals who filed for personal bankruptcy, 72% indicated that it was due to credit card debt, while 21% cited medical debt. Approximately 78% of the respondents indicated that they were pushed into bankruptcy by litigation filed to collect delinquent debt (Source: *Financial Advisor*, March 2014).

In a recent survey, only 11% of those between the ages of 50 and 64 said that their family was doing well financially, compared with 22% of those age 65 and older (Source: *AARP Bulletin*, January–February, 2014).

In a recent Gallup poll, 25% of Americans said that cost is the most urgent health problem facing the United States (Source: *InsuranceNewsNet Magazine*, January 2014).

Approximately 21% of employees choose not to participate in 401(k) plans (Source: Center for Retirement Research, 2013). ❍❍❍