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Sandwich Generation: Caught in the Middle

At a time when baby boomer couples should be saving for their own retirements, many feel squeezed by competing financial needs. Having started families later than past generations, their children may just now be entering college or still living at home. At the same time, aging parents may need financial assistance. It is a dilemma that is likely to become more common.

Caring for Parents

As life expectancies continue to rise, it becomes increasingly likely that you may need to help an aging parent. Some financial precautions you should consider now include:

1 Investigate long-term-care insurance for your parents. If they can't afford the insurance, you may want to purchase it for them.

2 Have your parents prepare a listing of their assets, liabilities, and income sources, including the location of important documents. Request a copy of our Peace of Mind Checklist to make organizing documents more streamlined.

3 Your parents need to have legal documents in place so someone can take over their financial and healthcare affairs in the event they become incapacitated.

4 Understand the tax laws if you provide financial support to your parents. You may be able to claim them as dependents if you provide more than half of their support. Additionally, you may be able to deduct medical expenses paid on their behalf.

5 Find out of if your employer offers a flexible spending account for elder care. This may allow you to set aside pretax dollars to pay elder-care expenses for a dependent parent.

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Loan Carefully

Responding to a request for a loan from a family member or friend can be difficult. Consider these points before loaning money:

✔ **Make sure the loan won't damage your relationship with that person.** Loaning money can put significant stress on a relationship. You don't have to make the loan, but explain your reasons to prevent hurt feelings.

✔ **Put the arrangement in writing.** Make sure to include the principal balance, interest rate, repayment terms, due dates, and provisions for late payments.

✔ **Exercise caution before cosigning a loan.** When you cosign a loan, you sign a legal document accepting responsibility for the entire debt. If the primary borrower falls behind in payments, the creditor can come to you.

✔ **Ask for collateral.** Don't be afraid to ask for a lien on a house or car if you are loaning significant sums. That way, if the person files bankruptcy, your claim will have precedence over general creditors without liens.

✔ **Don't keep the loan a secret.** If you make a loan to a family member, inform other close family members so they don't feel you are giving preferential treatment. ❍❍❍

Caught in the Middle

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Assisting Your Children

For many families, college costs are significant. While you may want to pay all college costs for your children, it may not be feasible with competing needs to save for retirement and to assist parents. Some strategies to consider include:

1 Shift some of the burden to your children, requiring them to work part-time during college or take out student loans.

2 Understand the financial aid system, investigating all financial aid sources. Search for scholarships that are not based on need. Apply to several different colleges, looking for the best financial aid package. Negotiate with your child's preferred college to see if you can increase the financial aid package.

3 Look for ways to reduce the cost of college. Your child can start at a community college, which is often cheaper than a four-year college, especially if the child commutes from home. Or consider a public university in your state, which will generally be more affordable than a private university.

Once your child graduates from college, don't assume your financial responsibilities are over. Adult children may return home for a variety of reasons — they can't find a well-paying job, they have too much debt to live alone, or they divorce and need financial support. If your child returns home, realize there are increased costs — additional food, phone bills, utilities, etc. Consider charging rent and imposing a deadline on how long he/she can stay.

Don't Forget Yourself

When faced with the competing needs of children and aging parents, it's easy to neglect your own need to save for retirement. But don't feel guilty about your retirement needs. One of the best gifts you can give your children is the knowledge that you will be financially independent during retirement. Consider the following:

1 Calculate how much you need for retirement and how much to save on an annual basis to reach that goal. Don't give up if that amount is beyond what you're able to save now. Start out saving what you can, resolving to significantly increase your saving once your parents' or children's needs have passed. Also consider changing your retirement plans, perhaps delaying your retirement or reducing your financial needs.

2 Take advantage of all retirement plans. Enroll in your company's 401(k), 403(b), or other defined-contribution plan as soon as you're eligible. Also consider investing in individual retirement accounts. All provide tax-advantaged ways to save for retirement.

3 Reconsider your views about retirement. Instead of a time of total leisure, consider working at a less-stressful job, starting your own business, or turning hobbies into paying jobs.

We are here to help you calculate these numbers. Let us know if we can be of service. ❍❍❍

Investment Tax Strategies

With marginal tax rates of up to 39.6%, taxes can seriously erode your investment's total return. Consider these strategies, which can help you reduce income taxes:

- **Consider your holding period before selling.** Gains on investments held for one year or longer are taxed at the capital gains tax rate of 15% or 20% (0% if you are in the 10% or 15% tax bracket), rather than ordinary income tax rates. Thus, before selling an investment, review your holding period.
- **Review realized gains and losses before year-end.** If you have realized gains but are holding investments with losses, you might want to sell them before year-end to offset those gains. You can offset all of your capital gains plus take an additional $3,000 of loss against ordinary income.
- **Specifically identify which shares you are selling.** If you purchased an investment over time, you may have varying basis amounts for different shares. Your gain or loss will be determined by which shares you sell. Thus, you should assess your overall tax situation, decide whether you want a higher or lower gain or loss, and then designate which shares you want to sell.
- **Donate investments with large capital gains to charitable organizations.** You can deduct the fair market value of the investment (provided you held it over one year) as a charitable contribution, subject to limitations based on your adjusted gross income. By donating the investment, you do not pay capital gains taxes on the gain.
- **Keep track of your investments' bases so you don't overpay taxes.** For instance, reinvested dividends are part of your cost basis since income taxes were paid when the dividends were received. For inherited assets, the cost basis is typically the value on the date of the previous owner's death.
- **Consider tax-deferred or tax-exempt investments.** The interest income from municipal bonds is typically exempt from federal income taxes and possibly state and local income taxes. Contributions to 401(k) plans and IRAs can grow on a tax-deferred or tax-exempt (for Roth IRAs) basis. This deferral of income taxes can make a significant difference in the ultimate size of your portfolio.

Four Steps to Boost Your Financial Confidence

When it comes to being in control of your money, confidence is one of the most important attributes you can have. But many people lack that confidence. Below are four simple suggestions that can help you increase your financial confidence so you know you're making smart decisions for yourself, your family, and your future.

1. Get organized. Not too long ago, it didn't take much work for the average person to organize their finances. Unless you were very wealthy, money matters were fairly straightforward — you might have had checking and savings accounts, an insurance policy, maybe some stock investments and bonds, and a mortgage. If you were lucky, you had a pension. You could easily store all your financial information in a single accordion file.

Today, things are more complicated. Credit cards, home-equity lines of credit, student loans, 401(k)s and IRAs, 529 plans for college expenses — the list of things to keep track of seems endless. It's easy for things to get lost or overlooked. That in turn can lead to mistakes that can weaken your financial confidence. Getting organized will give back a feeling of control.

There are numerous strategies for getting organized. The best approach for you depends on your specific situation and your personality. Some people stick with that old-fashioned accordion file. Others go completely digital, taking advantage of apps and online document storage to keep everything straight. Whatever solution you choose, you need to know all the details of your finances — how much you bring in, how much you owe, how much you're worth, and how much you're saving.

2. Get educated. When you start a new job, you may feel nervous and on edge. There's a lot to learn and you may not be confident that you'll succeed in your new position. But if you commit yourself to learning new skills and the ins-and-outs of how your new organization functions, your confidence will gradually increase. The same holds true for your finances. Simply taking the time to learn more about finances and managing your money can do wonders for how you feel about your life.

Basic financial literacy isn't really covered in most school curricula, so many otherwise savvy adults are clueless in this area — a 2012 study found that 61% of U.S. adults who were asked five basic questions about financial topics got three or fewer correct.[1] Fortunately, increasing your financial literacy is not hard; it just requires a little bit of effort. Many community colleges, churches, and nonprofit groups offer classes, or you can sign up for a class online. If you don't want to go back to school, consider watching videos or reading articles that review financial concepts you're unfamiliar with.

3. Get a financial plan. Making financial decisions on a day-to-day basis with no larger purpose or focus in mind may work for some people, but it's not likely to help you become financially confident. If you don't have any idea what might (or what you want to) happen, you're not likely to be very confident about your future. To achieve true financial confidence, you need a plan. Setting goals and making meaningful progress toward those goals will do wonders for your financial self-esteem. Having a financial plan will also help you prepare to cope with an uncertain world. You'll be better prepared for the unexpected. In fact, people who engage in financial planning are more likely to report that they live comfortably and are on track to meet all of their financial goals.

Why is a financial plan so important? It brings together all the threads of your financial life. Having a solid financial plan in place that covers everything from preparing for emergencies to planning for retirement is key to boosting your financial confidence. In fact, a 2012 study by the Certified Financial Planning Board of Standards found that planners were more likely than nonplanners to report high levels of financial confidence.[2] They were also less likely to have credit card debt, more likely to save 10% of their income, and have $100,000 or more in investments and savings.

4. Get help. A recent survey found that nearly 75% of American adults thought they could benefit from seeking professional financial advice.[3] Yet relatively few people actively seek out financial assistance. That's a shame, because getting reliable advice from an outside expert can do wonders for your financial confidence. Just like a doctor supports and guides you in making decisions about your health and a personal trainer is there to encourage and motivate you to get fit, a financial advisor is there to make sure you're sticking to your financial plan. Even if you're organized and financially savvy, there are many decisions that are difficult to make on your own, from deciding how much to save for retirement to choosing investments for your portfolio. We are here as a resource for you. ❍❍❍

[1] Source: "National Financial Capability Study." *FINRA*.2009 and 2012.

[2] Source: "The 2012 Household Financial Planning Survey." *CFP Board*. July 23, 2012.

[3] Source: "The 2014 Consumer Financial Literacy Survey." *NFCC*. 2014.

Broccoli and Chicken Mac & Cheese

Recipe from FoodNetwork.com; 4 Star recipe courtesy of Rachel Ray

2 Tbs Extra Virgin Olive Oil (EVOO)

1 lb chopped Chicken Breast

Salt & Pepper, optional

1 small Onion, chopped

1 lb Macaroni Elbow Pasta

2 ½ cups raw Broccoli florets, washed and chopped

3 Tbs Butter

3 Tbs All Purpose Flour

½ tsp Cayenne Pepper

1 tsp Paprika

3 cups Milk

1 cup Chicken Stock

3 cups yellow Sharp Cheddar Cheese, shredded

1 Tbs prepared Dijon Mustard

Boil a large pot of water for the macaroni. In a med-large skillet, cook together EVOO and chicken. Season to taste with salt and pepper. After a few minutes of saute, add the onion into the skillet. Cook another 5–7 minutes until cooked through. Turn off heat and set aside.

Add pasta and salt to boiling water. Cook 5 minutes, then add broccoli and cook 3 minutes, until cooked al dente (slightly crunchy, but tender).

Preheat a sauce pot over medium heat. Add butter and melt. Add flour, cayenne, and paprika. Whisk together until a roux bubbles — cook a minute more. Slowly whisk in milk and stock. Raise the heat and bring the mixture to a boil. Simmer for about 5 minutes, until the sauce thickens.

Drain pasta and broccoli florets. Add pasta and broccoli back into the pot; add the chicken. Stir together.

Finally, add cheese to the milk sauce and stir until mixed in, approximately one minute. Stir in mustard and season to taste with salt and pepper. Pour the sauce generously over the chicken, broccoli, and pasta, and stir.

Investment Answers News

Many of you attended our popular Women and Investing events in March. Women have unique challenges when preparing for their long term financial wellness. If you are members of an association who would like us to present about Women and Investing, contact our office. We're happy to share this motivating presentation for the ladies and their loved ones.

We have an exciting Spring Events Calendar:

Open House and Shred Party
IA Home Office: 1-3:00, 4-6:00, April 17

6 What-Ifs of Retirement
General Butler, 6:00: Tuesday, April 21;
Clifty Falls Restaurant, 6:00:
Thursday, April 23 and
Monday April 27

Bourbon Tasting
Westport Wine & Whiskey:
6:00, Monday, April 12

Wine Tasting
Madison Apothecary:
6:00, Thursday, April 28

Painting Party
Little Golden Fox, Madison IN:
6:00, May 12

Check our event calendar for more details at **www.InvestmentAnswers.net.**

We look forward to spending time with you soon.

Financial Thoughts

Retirement savings and health-improvement behaviors were highly correlated. About three out of four 401(k) plan contributors saw improvement in one or more abnormal blood-test findings compared with noncontributors. Additionally, at least one high-risk factor (heavy alcohol use, not exercising, smoking, etc.) decreased for one out of every two contributors (Source: *Psychological Science*, June 27, 2014).

According to a TIAA-CREF study, survey respondents said they are more likely to spend two or more hours selecting a restaurant for a special occasion (25%), a flat screen television (21%), or a tablet computer (16%) than they would planning an IRA investment (15%). Even among those who already have an IRA, 55% said they spent an hour or less planning for retirement (Source: *InsuranceNewsNet Magazine*, May 2014).

While the United States ranks sixth highest in per-capita income, it ranked 19th for how well its retirement system will meet the financial needs of retirees. Retirees in Switzerland, Norway, Austria, Sweden, Australia, Denmark, Germany, Finland, and New Zealand have the greatest financial security in retirement (Source: *InsuranceNewsNet Magazine*, May 2014).
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