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left to right: Joe Bowie, Andrew Flinton, Brenda C. Bolander, Carol Ringrose Alexander, Randy Thurman, and Chad Rudy

Financial Briefs

NOVEMBER 2016

Saving and Life Planning

We are all unique, so there's no one financial plan that will suit everyone. But that doesn't mean 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 by 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.*

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 private 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 to be saving for their educations.

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How to Set Savings Goals

Setting clear, specific savings goals is one of the best ways to achieve your financial objectives, but it's a task many people struggle with. Unfortunately, establishing savings goals is actually a bit more complex than simply choosing a random number and hoping you can eventually set aside that much cash. Below is a simple, seven-step plan that you can use to set — and reach — your savings goals.

1. Select Goals

Before you start saving, it helps to know what you are saving for, since most of us find it easier to save money if we know it will eventually be used for a specific purpose. Common savings goals are creating an emergency fund with at least six months of living expenses or saving for retirement, a child's college education, a down payment, or a vacation. Your goals will be as unique as you are; the most important thing is that you select them and make them as specific as possible.

2. Determine How Much You Need to Save

Exactly how much money do you need to accomplish your goal? For example, you may want to have $5,000 saved for your dream vacation, $30,000 for a down payment on your first home, or $1 million for retirement. Don't just choose a random number at this point — research how much you'll actually need, so that you can be confident that your savings will be sufficient to get you to where you want to be.

3. Consider Your Timeline

Savings goals can generally be divided into three broad categories: short-term (those you hope to reach in a year or less), mid-term (those that are roughly one to five years away), and long-term (goals you hope to achieve in five years or more). It's important to know your timeline, since it will have a direct impact on how aggressively you

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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.

You should begin to increase 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. Your emphasis should still be on the stock market; although by your late forties, you might consider increasing your bond investments to guard against market fluctuations.

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 2016, below age 50 there's a ceiling of $5,500 for contributions to IRAs and $18,000 to 401(k) plans, but at age 50, those limits increase to $6,500 and $24,000, 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 fifties 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 less than five years before you retire, you should consider reshaping your portfolio to include greater percentages of lower-risk investments.

It's never too early to create or update your financial plan, so please feel free to call.

Overcoming 5 Retirement Fears

We've all heard stories about people losing all of their retirement money in a stock market crash, outliving their money, or incurring unexpected medical expenses that force 80-year-olds back into the labor pool. Are these fears likely to become realities? Probably not, but here's how you can deal with them.

1. Outliving your money — There's a rule of thumb to decrease the odds of outliving your money over a 25-year retirement: by the time you're ready to retire, you should have saved eight times your annual salary. To get there, gradually work up to it. Of course, the amount of money you'll need to have saved by the time you're ready to retire depends on a huge range of very individual factors: What are your plans for retirement? How old are you? Will you still have a mortgage? Do you have long-term-care insurance? So to truly decrease the odds that you'll outlive your money, work with a financial advisor to develop a robust retirement plan.

2. High inflation — What if inflation went up to 12–14% as it did in the 1970s? It's probably not likely inflation would spike like that again. However, because it has happened before, you'll want to be prepared. This is where an annual review of your investments can be wise. That is the point of diversification: if you are properly diversified, your portfolio should include investments that move opposite of each other — so when one asset class or subclass is down, another is up.

3. Unexpected medical expenses before retirement — Unexpected medical expenses you may incur while you are still working could totally derail your retirement. To prepare for them, it's important to have insurance in place, such as disability and life insurance. Disability insurance will ensure that if you do lose your income due to a disability, you will still be able to take care of your basic necessities. Life insurance will protect your family in the event of your death — especially important if your income was the key to your spouse's retirement.

4. Unexpected medical expenses during retirement — For most people, health care is one of the largest (often *the* largest) expense incurred during retirement. There are a few ways to prepare for medical emergencies: private health insurance to fill the gaps in Medicare, long-term-care insurance, and rainy day savings. For today's retirees, Medicare takes care of most medical expenses, however, you need savings to cover what insurance won't — like copays and expenses exceeding your insurance limit. And just as you save before retirement for unexpected expenses, so should you continue your rainy day fund in retirement. Even if you are adequately insured, copays can be significant if you have a medical emergency.

5. Market crash — As with high inflation, the key to surviving a market crash is diversification. There is no way to insulate yourself completely from the effects of economic turmoil. But you can take steps to ensure that turmoil doesn't completely ruin your retirement plans. As you get closer to retirement, you should be invested less heavily in equities and more in investments such as bonds.

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need to save and where to put your money to hit that target.

4. Determine How Much to Set Aside Each Week or Month

For short-term goals, this step is fairly simple. Say you plan to get married in a year, and you want to have $10,000 saved toward that goal before your big day. To meet that goal, you'll need to save roughly $833 per month for the next year, or $10,000 divided by 12.

Determining how much you need to save to reach your long- and mid-term goals can be a bit more complicated, as you'll need to take into account the growth of your investments. There are online calculators you can use to estimate how much you'll need to save every month if you want to have $1 million for retirement by the time you retire at 65, or $30,000 for a down payment in three years.

Whatever the time frame for your goals, making these calculations is important, because it allows you to adjust your savings as your budget allows. For example, if you can't afford to save the over $800 a month you need for the wedding, you have two options: You can either adjust your timeline or opt to keep it the same and save less.

5. Automate Your Savings If Possible

Once you know how much you need to save, you'll likely find it easier to stick to your plan if you can automate your savings. Adopt the pay-yourself-first principle and set up automatic transfers to your savings or investment accounts. The key is to save the money before you ever have a chance to spend it, as well as to avoid forgetting to make the transfers.

6. Choose the Right Way to Save

Depending on your goal and timeline, you have different options for savings. Traditional savings accounts are a good option for short-term goals, since your money will be safe; while investment accounts and retirement accounts, like a 401(k) plan or IRA, are good options for longer-term goals, since you'll earn money as you save.

7. Watch Your Money Grow

Once you have your savings plan in place, keep an eye on how it is doing. You will need to periodically review your results and make adjustments as necessary.

Retirement Planning Advice for Students

Rare is the college student who earns a lot of money. But no matter how much money you earn, now is the time to start thinking about retirement planning. One of the biggest regrets among retirees is that they didn't start soon enough. Here are five tips that every college student should know about retirement planning:

1. Start saving. No matter how much money you make, it is important to allow room for savings. Live below your means. Sometimes you may only have $10–$20 to put into savings, other times you may have $100. People get caught up about how much they're saving; but at this age, it's far more important to simply be saving — whatever the amount.

2. Open and contribute to an investment account. If you work for a company that offers an employer-sponsored retirement plan, sign up and contribute monthly. A 401(k) plan is an easy way to save for retirement: this money comes right out of your paycheck, you don't have to do any active management of the investments, and you can always roll it over to another 401(k) or IRA when you change jobs. Best of all, many companies will match your contributions to a 401(k) plan. If your employer matches, try to contribute at least what they will match.

If you do not work for a company that offers an employer-sponsored plan, you can open up an individual retirement account (IRA).

3. Maintain an emergency account. Putting money away for retirement may be premature if you don't have rainy-day savings. You should have an emergency fund with about six months worth of living expenses. This should be in a separate account from your retirement or other savings. Having separate accounts will help you avoid dipping into your retirement or other savings for unexpected emergencies (losing your job, car repairs, etc.).

4. Say no to debt. Many college students have some form of debt — student loans, car payments, or credit card debt. If you do, it's important to pay down that debt. Most student loans are deferred until after you graduate, so if you have other debts, focus on paying those off first. Also, avoid accruing new debts. Save for big purchases instead of charging them. We all hear about college students graduating with huge debt burdens that in many cases stifle future plans. Some debt — like student loans — can work to your advantage (for example, if it allows you to get the education you wouldn't otherwise); but generally, the less debt you have, the better off you'll be.

5. Knowledge is power. Stay knowledgeable about your money and about the economy. Learn about your options, talk to a financial advisor, seek counsel from your parents or grandparents, and read financial articles. The more you know, the better able you will be to make financial decisions.

For many young people, college is when you discover who you are and who you want to be. It's a time to break away from the family unit, meet new people, have fun, try new things. Although retirement planning is often far from college students' minds, it is the perfect time to start saving. Please feel free to call if you have any questions or need help starting your plan.

News and Announcements

From the Alexander Household

We took the boys to see "Da Vinci – The Genius" at Science Museum Oklahoma. I expected to spend most of my time with his art while the boys would prefer the life-size interactive models, but we found that we enjoyed exploring all of it together.

Leonardo Da Vinci lived from 1452 to 1519. To create this exhibit, they utilized sketches from Leonardo's codices (scientific journals) to create models of many of his inventions. Each codex is written in an antiquated version of Italian in a mirror-image style, which is read from right to left. The codices are translated on a touchscreen in the exhibit, which was my husband's favorite part.

The models include an emergency bridge you could construct under battle conditions without rope or nails, an underwater breathing apparatus, and an armored vehicle. My son, Jackson, was fascinated by the Mirrors Room, an eight-sided room with flat mirrors as the walls. Leonardo noted that if a person stood inside, he "will be able to see every part (of himself) endless times."

I enjoyed the analysis of the *Mona Lisa* and the video of the composition of *The Last Supper*. My son, Luke's, favorite exhibit was a chair placed so that your companion can sit in front of the *Mona Lisa*'s background to be photographed or sketched. This comprehensive exploration of Leonardo da Vinci's work will be at the Science Museum through January 8.

Carol Ringrose Alexander,
CFP®, AIF®, CDFA™

From the Flinton Household

"All kids need is a little help, a little hope, and somebody that believes in them." ~Magic Johnson

I recently experienced an anxiety that I haven't felt in quite a while. There I was with sweaty palms, a rapidly beating heart, and an unease of what was to come. As the whistle blew to start my daughter's soccer game, I figured the five-year-olds were ready, and I just needed to stay out of their way. As the stand-in coach for the day, I didn't know what joy I was about to experience.

As the other team warmed up, I was a little nervous as they were running designed plays, passing with accuracy, and seemed to be a well-polished machine. However, what I realized as the game got underway was that our team has grit. At the beginning of the season, the girls agreed upon their team name: Sparkle Squad. Our Sparkle Squad could have just sat there picking dandelions, and I would have still been gloating, watching such a wonderful group of kids. I know the girls have a marvelous time playing soccer; but for this dad, subbing as the coach for the day may have been the highlight of my month.

The girls played magnificently, and we were pleased with the outcome: 7–12. We are fortunate to have an incredible group of girls and wonderful families who have become our friends this season. Our first foray into team sports has made for a joyous fall. I look forward to staying involved with the kids and maybe throwing my hat in the ring for a coaching assignment, as well.

Make it a great month!

Andrew Flinton, CFP®

From the Rudy Household

For the past seven years, I have been subleasing my Frisco office space. The last four years were from the Joe Hockaday CPA firm. It was a great relationship, but Joe Hockaday CPA needed to expand into my space, and it was time for me to find a permanent home.

Last December, I purchased a new office suite. At the time of purchase, the developer had not broken ground on the office park. This allowed me to make some custom selections to be ready for the expected opening in May. This was a very optimistic construction schedule, as I did not finally close until the last week of September. It did not help that the new office was just down the road from my current location, which allowed me to monitor each nail that was hammered in.

I am now mostly settled into the new office, but am still working out some minor details. For example, I need to replace the conference room chair castors that were designed for carpet and are very quick on the hardwood floors. I should have this fixed very soon for those who experienced the roller-coaster ride!

While the construction was quite lengthy, I am very happy with my new office and location. I have much larger meeting space and accommodations. I look forward to meeting with you for many years to come.

Chad Rudy, CFP®
Executive Vice President