SUMMA GLOBAL ADVISORS, LLC
Investing in a changing world

Newsletter
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April 2015

Seven Sound Financial Tips for Young Families

April is the Financial Literacy Month[1] so it only makes sense for me to offer some personal finance advice. Also as a parent to two very young and beautiful children, and a Certified Financial Planner™ practitioner, I am passionate about being financially independent, responsible and literate. Ask yourself this simple question: which do you prefer, spending money or spending money knowing that you have it under control?

1. Know or Track Your Spending

The fancier term is "budgeting." It is not just about balancing your checkbook, however; it is more about taking control of your finances so that you and your family can enjoy financial and mental freedom.. Set spending priorities by breaking expenditures into two categories: needs and wants. My wife and I have made it a habit by asking each other, twice, before making a big purchase (over $100): Is it really necessary? Believe me, everything else will fall into place—it is like magic (but you have to give up a little bit of ego).

2. Get Your Free Credit Report

If you have run into situations where you have been denied of a loan, there probably are blemishes on your credit profile that have made your credit less than pristine. It does not take much for your credit score to deteriorate. For example, a small balance on a closed cell phone account could cause a big dent and without checking your credit report, you may never know about it! Federal regulations require the nation's three credit reporting companies to provide you with a free copy of your credit report, at your request, once every 12 months.[2] But you have to initiate the request. If you find errors, go through the steps to resolve them.

3. Consolidate Debts

Do you have a spending problem? Do you miss credit card payments and/or only pay the minimum amounts? Follow the first step by staying on top of spending and you will quickly identify where the problems lie (Dining out too much? Daily Starbucks visits?). It is also likely that you have multiple lines of credit (credit cards), all of which charge prohibitively costly interest rates—refer to your credit card statements, and Table 1 lists the interest rate (APR) by some major card issuers.

[1] http://www.financialliteracymonth.com/
[2] http://www.consumer.ftc.gov/articles/0155-free-credit-reports

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Issuer/Brand	APR	Credit Needed
Chase/Freedom	13.99% - 22.99%	Good to Excellent
Discover/it	10.99% - 22.99%	Excellent
Citi/ThankYou	12.99% – 22.99%	Excellent

Table 1. Select U.S. credit card interest rates
Source: credit.com

Negotiate with your credit card companies for a better rate by committing to a payment plan. But you have to stop adding to the debt pile (needs vs. wants)! Or transfer your high-rate debts to a lower, less expensive company; many of them offer 0% on balance transfers. A small difference in interest rate can yield big savings in interest paid over time.

Another idea is to keep the number of credit cards (including those issued by a retailer such as Macy's) to a maximum of three. The more cards you have does not mean you have better credit or more money to spend. Also limit your borrowing to no more than 70% of your available credit limit; consistently getting close to (or above) the limit will hurt your credit score.

4. Set Up Auto Deposits

Once spending is under control, it is time to start saving. Most U.S. financial institutions offer features such as auto deposits and auto-pay. For any recurring loans (mortgage, credit cards) and bills (utility, cellphone, etc.), auto-pay is the way to go. Some service providers let you choose the date on which their bills are paid. You can arrange them to coincide with your payday so that you know the must-haves are paid for first. For savers, tell your HR department to defer part of payroll to the company's retirement plan, or, if that is not offered, to a traditional or Roth IRA account (see Advice #5).

5. Contribute to a Retirement Account

A recent Vanguard study on retirement savings shows that many Americans, while actively saving for retirement, are not doing enough (Figure 1).[3]

Many employers offer matching on salary deferral up to a certain percentage on defined contribution (DC) plans such as 401(k) and SIMPLE IRA. One of the typical matching themes is a 100% match on first 3% of salary deferral, i.e. if you put away 3% of your salary, your employer will put in 3% as well—that is a 100% immediate return for simply signing up!

Although not every company offers a retirement plan, there are other options to save. The IRS lets you squirrel away up to $5,500 (or $6,500 for those over 50) in a Traditional or Roth IRA account. Spreading that out throughout the year is about $450 a month, which is more manageable than an annual, lump-sum contribution. Your advisors can guide you through the setup process and work toward your retirement goals.

[3] Details at http://vgi.vg/1CWKYuH

Figure 1: How much Americans are saving for retirement.
Source: Vanguard

6. Buy Term Life and Long-Term Disability Insurance

One of the most unthinkable events that can happen is the death of a loved one. But to young families, the loss of a breadwinner can have a far more devastating and stressful impact than expected. Grieving is part of the healing of process, but how would your loved ones do so having utilities cut off or being evicted from their home because they have run out of money? At the very least, purchase a term life insurance with death benefit equal to your home mortgage. Of course, it is best practice to figure out the "real" amount on which the family can rely for years to come, something a bona fide financial planner (not an insurance broker) can help you determine.

Equally unthinkable and unfortunate are the chances of becoming disabled. The cold, hard facts about disability, according to Council for Disability Awareness (CDA), are:[4]

- Just over 1 in 4 of today's 20 year-olds will become disabled before they retire.
- **Accidents** are NOT usually the culprit. Back injuries, cancer, heart disease and other illnesses cause the majority of long-term absences.
- Long-term disability lasts 31.2 months on average.
- Over half of all personal bankruptcies and mortgage foreclosures are a consequence of disability, according to a 2005 Harvard study.

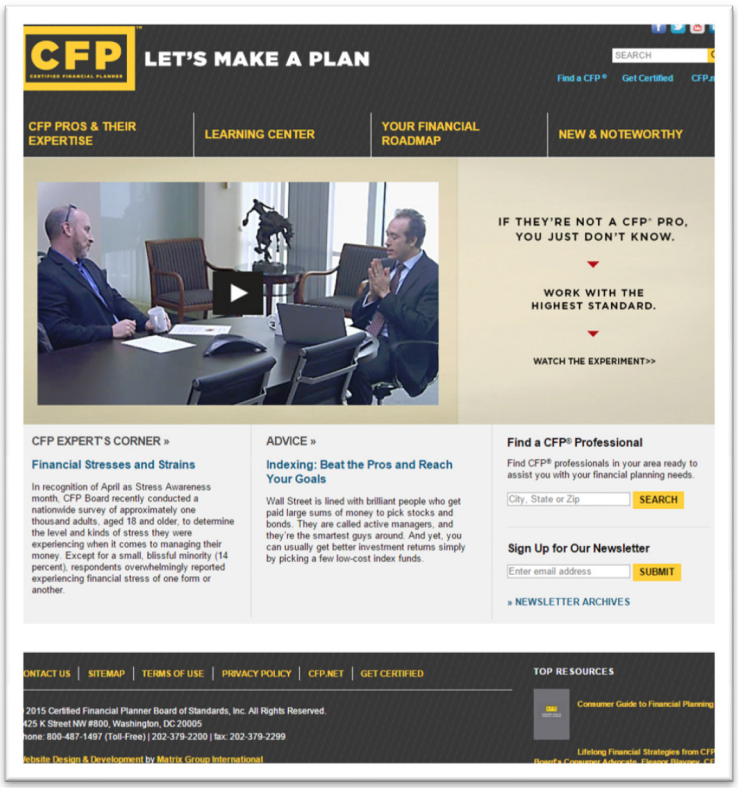
If you are worried, CDA has a good "Disability Security Plan" which, in essence, is a budget worksheet in case of disability (or any other undesirable events).

7. Continue to Add Value

As human beings, we get better at what we do, accumulate experience and learn new knowledge every day. The world is flush with information. From traditional channels such as schools and professional

[4] http://www.disabilitycanhappen.org/chances_disability/

publications to podcasts and websites like TED and Google/YouTube, you can learn just about anything that the world has to offer. Continued education is arguably the single best way to stay competitive, sharp, and ahead of the game, sometimes not just in your own line of work. For example, my wife loves cooking and has found numerous yummy recipes online (guess who benefits from that).



Where to Find Help

Working with a fee-only CFP® professional who is subject to the fiduciary standard is the best. The CFP® Board's consumer website www.letsmakeaplan.org allows you to search for planners based on location and other criteria such as compensation method.

Credible online tools can help you track and analyze spending, as well as create a budget. One of the more sophisticated personal finance websites is Mint.com, which has been around for a long time. Major financial publications and local newspapers also offer valuable (but more generic) tips on personal finance. Last, but not least, your trusted advisors at Summa Global are always happy to help.

- Henry Yu, CFP®