FOUR GENERATIONS

Here at Nebel Financial Services, LLC., I have had the privilege of helping and working with families that now have four generations! I have been working with multiple generations going on 18 years as of June 2015. During this time, I have watched many children and grandchildren come into this world who have now graduated from high school! Unfortunately, during this time I have also lost not only long-time clients, but dear friends who passed too early. Given that we are now regularly working with heirs and beneficiaries, I thought this would be a good time to go over some information that may be helpful to you and/or your family during many of life's stages. Each family is unique and each has its own set of circumstances during various phases of life. Some of what I am writing about is due to personal experience as well as what I have learned in assisting families since 1997. In many cases, it is the micro decisions 'early on' that can make a lifetime of better macro decisions and more possibilities with better outcomes.

AGE 0 - 5: THE FIRST YEARS

There are many options available to save when a newborn comes into this world. If college has been a part of your family history, a 529 Plan is probably a good start. These plans are extremely flexible and you can invest as little as $50 per month. If your oldest child does not to go to college, you can choose to transfer the account to a sibling. If the sibling does not go to college, then you can use the funds for your grandchildren. These are educational funds for the whole family, not just for the individual. When setting up the 529 Plan, I prefer putting the funds in the parents', grandparents', or names of aunts and uncles. This will help out when it comes time to complete the FAFSA (applications) for college as well as gives the 529 owner absolute control. I do not normally recommend the Unified Gift to Minor Act (UGMA) accounts for several reasons: 1.) The funds (by law) have to be transferred to the minor at a specific age; 2.) It counts against the family for college aide, etc. Parents need to have updated wills, particularly to name a Guardian of a young child. This is also the time for parents to consider purchasing enough life insurance to replace your income in the event of an untimely passing.

AGE 6 – 10: ELEMENTARY YEARS

It is never too early to discuss finances with the little ones. Does the third grader hear that the family saved up for a family vacation or for a 'special weekend'? Is there active communication between the parents? Is there active communication between the parents and their parents (child's grandparents)? All of this information may determine whether a child fears financials or embraces and controls it over his or her lifetime. Do they know they have a college savings fund set up? I have found that it doesn't matter the amount that is saved or being saved, but just the fact that there is a savings or investment account set up starts an underlying expectation that the child may or may not be college bound. This can help in academics as well as extracurricular activities as children approach their teen years.

AGE 11 – 15: EARLY TEEN YEARS

Things begin to get a little more serious during these years. Does your child need/want the latest and newest gadget or name-brand clothing? Do they save up their allowance to purchase a special bat for baseball or are they just given a new piece of athletic equipment for each new season? Are mom and dad trading in the new car every three years or driving the family work horse for a decade at a time? This is also the time to start a discussion about short/long-term needs with your teenager and how allowances, gifts or other windfalls can be used. Examples of how allowances may be broken into three parts: short term may be lunch money, medium term could be for a movie or to attend a birthday party, longer term or special savings may be for a trip to an amusement park or spending money on a family vacation.

AGE 16 – 20: LATE TEEN YEARS

By this age, you will have a feel for whether you have a spender or a saver in the household. This is when you'll need to start working with the teenager to try and help them distinguish between wants and needs. It could be about electronics, clothes, or food choices. This is also the time

frame for figuring out higher education costs. There needs to be some constructive planning so that your teenager has some 'skin in the game' when he or she departs your house, whether they attend higher education or simply move out. If there has been some discussion about allowance allocation in their early years, this adjustment may not be as hard. I recommend starting a Roth IRA as a teenager, as long as there is 'earned' income from a job (preferably W-2 wage).

AGE 21 - 30: CRITICAL YEARS

I look at these as the critical years for several reasons. If a good savings pattern starts at the first job, then it will make life much easier for the 25-year-old in 30 or 40 years. If you get into good habits early, then you will need less help from parents, grandparents, or aunts and uncles as time goes on. These early decisions can also help out in the event of an unexpected job loss. It is what I call 'getting your house in order early.' These are the years to absolutely start your Roth IRA. The Roth IRA is an investment that allows you to use the principal amount at any time for any purpose. But that is NOT the best part. The best part is whatever this amount grows to, it can be used tax-free for retirement. This is also the same time frame to start your company 401(k). I now recommend that every new hire start deferring funds into a Roth 401(k) (After-Tax) as well as some into the Traditional 401(k) (Pretax). I read everywhere that 10% is a good amount to start with. I recommend starting with at least 15%, if your budget allows. This is also the time frame to decide on life insurance. If no one is counting on your income to live on, then it may make sense to not purchase life insurance. However, if a young family is counting on your income to live on, then life insurance is a must. This is also the time frame to start using savings vehicles outside of your 401(k) and IRAs, in perhaps a nonqualified (nonretirement) account. This extra savings could serve as an additional buffer in case of an emergency. Lastly, but probably the most important thing to do at this time, is to enroll in a long-term disability policy (LTD). Enrolling in your company group plans is very inexpensive and could literally save your financial life if you become unable to work. If you end up buying a house in your twenties, a 30-year mortgage generally is affordable enough to have your first house paid off by the time you are in your mid-fifties. The very first steps in Estate Planning start here.

AGE 31 - 40: MAINTAINING AND BUILDING YEARS

*T*hese are probably the hardest years, as raising children can be very expensive. You will want to fight to maintain what you (hopefully) already started in your twenties. This means as you pay off the car (which you paid on for 60 months), you should now start to divert a reasonable monthly amount (i.e. $400 per month) to invest into your Roth IRA or a nonqualified mutual fund. Another option is to boost your 401(k) account to eventually invest the maximum allowed. Does your life insurance need to be renewed? Did you enroll in the LTD policy at the new job? Did you start a 529 plan for the last child? Communication is key here; whether you are single or married, talk to your siblings and/or parents. This may be the time frame to begin to approach your parents and/or grandparents to make sure their affairs are in order. Also, many parents and grandparents may want to assist with what you are trying to get accomplished financially. Does granddad have a large IRA that he is drawing on annually where you may be the beneficiary? This is necessary, as if you are the beneficiary (if the spouse has passed), this IRA becomes your account, and you must begin drawing from it before December 31st of the year following a death. We have Beneficiary IRAs where clients are drawing down retirement funds (because of IRS laws) in their thirties. There are certain rules and regulations that must be followed including steep penalties for failure to make timely withdrawals. 30-year mortgages can still make sense, as you will be out of the mortgage business by the time you retire, which will allow for more choices with your retirement income.

AGE 41 - 50: HARD CHOICE YEAR

*S*hould you stay in the house that is starting to be paid off or buy the dream house and renew the mortgage clock? Are you going to dip into the retirement fund to pay off for a home addition? These are choices that can sometimes dictate how well you do over your lifetime. As the children head off to college, are they vested in the costs with part-time work? Have they started their work-study program/summer job? If these details do not get ironed out early, the student can linger in school longer than intended. This is also the time frame to start looking at tweaking your 401(k) contributions and making sure your retirement plan is properly diversified. Can you afford (or not afford) to increase the percentage going into your tax deferral? The 401(k) contribution limit in 2015 is $18,000. As you reach age 50, this contribution limit jumps to $24,000 ($18,000 + $6,000 catch-up provision). As of late, 401(k)s are now allowing their participants to defer into a Roth 401(k). Check to see if your 401(k) plan allows for after-tax savings. The Roth 401(k) maximum contribution is the same. Example for a 55-year-old is eligible to contribute $20,000 into the Traditional Pre-Tax + another $4,000

into 'After-Tax' or the Roth 401(k) = $24,000 maximum between both types. Most private sector jobs do not have pensions, and many public sector jobs have reduced pensions, so tweaking your 401(k) contributions is critical. This is the decade that you may want to consider refinancing your home or paying extra principal payments to get out of the mortgage business by the time you want to retire. One strategy is to take out a 30-year mortgage to keep the lowest possible payment. However, you could pay extra on the mortgage to get it paid off by the time you reach a certain age. We have calculators to find out the extra amount.

AGE 51 - 60: PEAK EARNING YEARS

These years are some of the toughest, as your parents and/or in-laws may require some of your assistance. Your children or other younger family members may also need some help. I think about safety on an airplane: first put an oxygen mask over your mouth before helping a child. It seems cruel, but this can hold true over your investing years. If you cannot take care of yourself, then you'll be unable to help others. This is also the time to do some rough analytics regarding retirement planning. Will the mortgage be paid off? Will you eventually sell the primary residence and downsize? Also, if you take a snap shot of your portfolio, what kind of income can be generated? My very rough rule of thumb is a 4% withdrawal rate. If you have $100,000 in a 401(k); this will generate approximately $333.00 per month that is fully taxable. If you have this same amount in a Roth IRA; the same monthly income stream is tax-free. Find ALL potential income sources.

I have many clients who worked for various companies in the 1970s and 1980s for just over five years and they are now eligible for a small pension (even though the companies no longer exist). Log on to ssa.gov/myaccount to find out if your past earnings have been recorded correctly and what potential income you may be entitled to. After you add up your Social Security and any pensions available, then start to review your various assets. Since these are your peak earning years, this is the time to really sock away funds into all types of retirement and nonqualified investments. You may need to fully engage your parents during this decade. Do they have beneficiaries listed on all of their assets? If they have a Trust, is their house(s) registered to the Trust? Who are the Successor Trustees? Do they know they are Trustees? Are assets Qualified or Nonqualified? Each asset class can have different IRS rules and regulations. Does one of your folks have an annuity that keeps paying after they pass? Will the surviving spouse be able to live comfortably? Is your Estate Plan current?

AGE 61 - 70: SOFT LANDING YEARS

Wow, you are finally here! I like calling this time frame the soft landing years as you may already have an idea of what your retirement income will be derived from. Remember, you have been planning this for close to 40 years; there is not a retirement switch that goes off. During your sixties, you may not be in the most conservative investments, but hopefully you own various investments that reinvest dividends on a monthly basis. As you approach actual retirement, you should begin to 'payout' the dividend instead of 'reinvest'. This way you will already know what the dividend amount is before entering the retirement phase. This strategy can be used within retirement accounts as well as investments outside of retirement. There are also annuity options that may or may not have been exercised to give you a defined retirement income stream.

Regarding mortgages in your sixties, you will likely be in the 8th or 9th inning of paying off a 15-year mortgage to free up more of your monthly budget. I have also seen successful clients refinance into a budget-friendly new 30-year mortgage. If the bank will lend you funds at 4% and part of that interest is tax deductible, having a mortgage can sometimes help with the overall plan. This is also the time frame to find that family friend or other relative who will be named as Executor of your Will, Power of Attorney, and/or Trustee of your affairs. This person should generally be younger than you, have his or her affairs in order, be self-sufficient, and preferably be semilocal to where you reside. This person needs to have your interests as the number-one priority as you age into a time when you may not be able to care for yourself. Here in Fairfax, VA, if the named family member is not working on behalf of your best interest during this time in your life when you need help the most, the county will assign an attorney (not affiliated with your attorney) to handle all of the estate decisions. This is not a good strategy; please update your estate planning documents and communicate your intent with the trusted family member or friend.

AGE 71 - 80: GO GO YEARS

These can be some of the most fun years of your life. If you have been wanting to travel, this is the time to decide where you want to go and go! You also now have the freedom to travel at the most budget-friendly times of the year. You may also be the most active with your children, grandchildren, or perhaps your nieces and nephews. They may be looking to you for direction, such as how to set up retirement and education funds. You may have to be the teacher during this decade as well as the grandparent. Financial Literacy is just now slowly being taught in schools across the country. Some of the behaviors that got you to where you are today may need to be shared with the next few generations of your family. At this stage, it is CRITICAL to make sure the Will has been updated and the Trust has the latest amendments. This is also the time you may want to at least consider downsizing the main family residence to something more economical and functional as you enter the next decade. It also doesn't hurt to go through all of your accumulated belongings (over the last eight decades) to trim-down it down to a more manageable amount of 'stuff'.

AGE 81 - 90: SLOW GO YEARS

These years are still a whole lot of fun. You may still enjoy traveling as well as visiting family in various parts of the country. This is also the chance to really make a difference, not just in your life, but in someone else's. This is the time frame that many consider doing one-time life gifts to family members or an entity of choice. A full evaluation needs to be made before it is deemed that you have enough assets to do gifts. Many clients have opted to set up 529 plans in their eighties for their great-grandchildren. Something new to consider, is setting up your own Foundation that can leave a legacy for future generations. It is not as complicated as it sounds. This is a great tool if you have a cause(s) at a 501(c)(3) that you may want to give to. Several clients have established churches and synagogues outright. Estate Planning has to be up to date as well as all beneficiaries listed correctly with their correct 'legal' names. If your son or daughter has had a name change, please update! Remember, NAMED beneficiaries on a life insurance policy, IRA, Annuity, or a Transfer On Death (TOD) account trump any named person(s) in a Trust or Will! Make sure there is some synergy between what your Trust/Will says AND your listed beneficiaries. All registrations should be updated with correct information. If you have a Trust; make sure the Trust is listed as owner of your Trust or other asset. I have seen lots of Trust work that is meaningless, unless assets get retitled to the Trust. The better estate planning companies make sure these re-registrations are completed. All of this is critical, especially when you consider the current life expectancy of married couples. There is a 45% chance that one spouse will live to age 90 and almost a 20% chance that one spouse will live to age 95. (Vanguard Saving for Retirement, Web 04/14/2015).

AGE 90 - 100: STILL GOING YEARS

By now you are settled and have accomplished most, if not all, of what you wanted to during your lifetime. Generally speaking, unless something has changed dramatically in your family, I do not recommend huge changes to your Trust or Will in your nineties. These estate planning documents should be on file with the trusted family friend or relative. It does not hurt to review them, but try not to make wholesale changes. This is also the time to try as best you can to continue your old hobbies. Try to maintain a schedule for meals, any prescriptions, visits with friends, and trips to the store. Keeping your routine up can maintain and even increase your stamina.

Please keep in mind that every person, family, and situation is unique. Although getting started early helps, I am a firm believer that it is never too late to start planning. The health of you and your family is perhaps the most important aspect that will create opportunities or liabilities over your lifetime. It is important to start living a healthier life. The earlier the better; but again, it is never too late to start new habits.
I hope this spring brings your family much cheer!

Sincerely,

Andrew D. Wade, CFP®
President