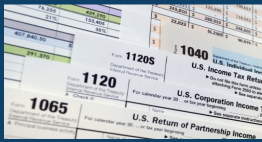
Financial focus

ACP Alliance of Comprehensive Planners

SPRING 2017

In This Issue



Tax Time and Spring Cleaning
- Karin E. McKerahan, MBA, CFP®

Today I Might Be Crazy
- Kelly Adams, CFP®, EA

Pay Yourself First and Invest in Your Career
- John Konetzny, CFP®, EA

Microinvesting: Building Wealth Pennies at a Time
- Judy McNary, CFP®, MBA, MS

Tax Time and Spring Cleaning

Karin E. McKerahan, MBA, CFP®
Murrieta, CA

You're probably congratulating yourself for surviving another tax season and the chore of gathering tax data for your ACP advisor or tax professional…and thankful you won't face that task again until next year. Now that you're fresh off the process of getting organized to have your tax return prepared, why not continue the "spring cleaning" with a bit of housekeeping in other areas of your personal finances?

The most obvious task, now that you've sorted receipts and used Quicken or another personal finance program or app to gather your income tax data, is to go through old records and documents. Most bank and investment statements are archived online, so there's no need to retain - or even receive - paper statements. Sign up for electronic delivery of statements and be sure to shred paper statements that contain personally identifiable information. And maybe you're ready for a change in the way you track your expenses; there are plenty of online tools and apps that can simplify your record keeping.

With the tax filing deadline looming, it's likely you will be making an IRA or SEP-IRA contribution. Take a few extra minutes to check your beneficiary designations and update your beneficiaries if needed. While you're at it, take a look at your will or trust. Verify that the guardians and trustees named in your will/trust still reflect your wishes regarding the care of your children and disposition of your estate.

Speaking of children, be sure to open an IRA for your child if he or she has any earned income for 2016. Usually a Roth IRA is best suited for minor IRAs, but consult with your ACP advisor. It's never too early to begin saving for retirement. Even a small contribution will grow exponentially. A $300 IRA deposit, for example, will grow to nearly $6,000 over the next 50 years (assuming a 6% annual return). IRA and SEP-IRA contributions for the 2016 tax year - for you OR your child - must be made by the tax filing deadline, which is April 18 this year.

If you're a small business owner, tax time is a great time to review your retirement plan options with your advisor and ensure you have the best plan for your situation and goals. Employees can review their company's 401k or 403b plans to make sure they are contributing the maximum and are choosing the investment options that are best within the context of their overall financial plan and goals. If you will reach age 70½ this year, ask your ACP advisor how to best start taking required minimum distributions from your IRAs and any other tax-deferred retirement plans.

Finally, plan now for your 2017 tax liability to avoid owing a large amount next tax season, or perhaps worse, receiving a large refund (which is basically an interest-free loan to the IRS). If you're a wage earner, confirm that your withholding amount is in line with your tax liability and file a new W-4 if you need to change the amount withheld. And if you're self-employed, be sure to make your quarterly estimated tax payments as directed by your ACP advisor or tax professional (and adjust the amounts as the year goes by if your income changes).

Remember, financial planning is a process, not an event, and taking a few minutes every tax season for some financial housekeeping will keep your finances running smoothly.

Today I Might Be Crazy

Kelly Adams, CFP®, EA
Novi, MI

Today I might be crazy. I signed up for the 2017 CrossFit Games. I have only been participating in CrossFit since last July; I am not a top athlete; I am not highly competitive; I have no hope of making it to the regional games for my age group; and I will not even rank highly in my gym. So, why sign up and participate? Because, without hurdles to overcome or goals to achieve, it's easy to lose track of where you are heading or even where you wanted to go in the first place.

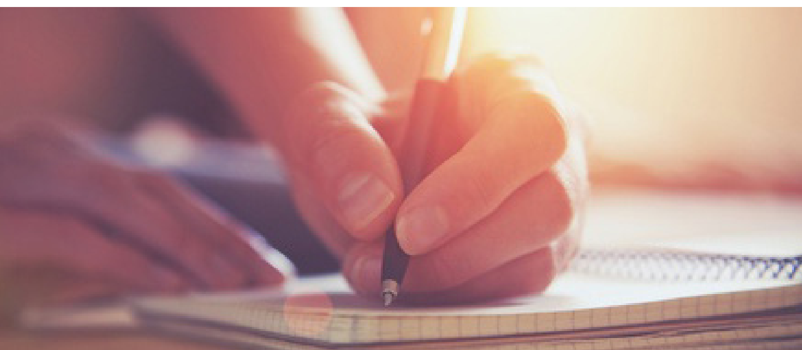
This morning's MET-CON at "the box" was a cardio killer. Our trainer said it was the hardest of the week because the first Games workout is on Friday. Yikes, that's coming up fast. For the next five weeks, everyone participating in the games will compete at their home "box" with the same workout and log results. The top scores will move on until the elite from across the country gather this summer to compete in the finals.

If there isn't hope of any substantial outcome, why compete? I decided to compete because I made a commitment last July to give CrossFit a one-year opportunity to see what it could do for me. I made the commitment, so I will give it 100% until the end of the year. If that means pushing myself to do more than I thought I could, then that is what I will do. I'm already stronger than I've ever been. But, I can do more.

I could work out at the local gym or at home. Would I push myself as hard? No, absolutely not. Unless you have crazy determination and focus, it's important to seek outside guidance to move beyond where you are today. The best will always tell you that without the guidance of their coach or a mentor, they wouldn't have gotten where they are today.

In my financial planning practice, I push clients to set goals, break them into small bites and develop timelines for completion. Unfortunately, I don't receive much feedback that clients are taking advantage of the power of goal setting. Dr. Gail Matthews, a psychology professor at Dominican University in California, did a study on goal-setting with 267 participants. She found that you are 42% more likely to achieve your goals just by writing them down.

So why not write them down? My uneducated guess is a fear of failure. But, if you wrote down a goal, be it financial, lifestyle, personal growth, career, health, etc., and do only one thing toward achieving the goal, won't you be farther along than if you didn't take any action? How is that failure? It's not; you should praise yourself for any progress you've made. Then, reassess the goal, redefine the interim steps, and recalculate the goal date.



Forbes reports a remarkable study about goal-setting. Harvard's MBA graduate students were asked if they had set clear, written goals for their futures, as well as specific plans to transform their fantasies into realities. The result of the study was that only 3% of the students had written goals and plans to accomplish them, 13% had goals in their minds but hadn't written them anywhere, and 84% had no future goals at all. Think for a moment which group you would belong to. After 10 years, the same group of students were interviewed again and the results were astonishing. The 13% of the class who had goals, but did not write them down, earned twice the amount of the 84% who had no goals. The 3% who had written goals and plans for them were earning, on average, 10 times as much as the other 97% of the class.

So, what does my competing in the CrossFit Games have to do with financial planning? Absolutely nothing for someone at my level. But it has everything to do with living my best life. What commitments will you make to live your best life? Will you write them down? Will you share them with your financial planner, life-coach, mentor, trainer so you have your own personal cheerleader in your corner?

All content provided by members of:

Pay Yourself First and Invest in Your Career

John Konetzny, CFP®, EA
Groton, MA

Pay yourself first. It is one of ACP's Five Fundamentals of Fiscal Fitness. Before adding additional expenses of a larger home, a newer car, a private pre-school, or lavish vacations, put away at least 10% of your annual income in permanent savings to build lifetime wealth. Likewise, always invest in yourself. The consequences of not doing this are devastating.

In what seems like an epidemic, Americans are reaching retirement age with little to nothing saved and significant amounts of debt. According to an analysis by the Employee Benefit Research Institute, people in the U.S. ages 65-74 hold more than five times the debt Americans their age held two decades ago. A major culprit? Their children's college tuition costs. Parents are making their kids' college costs higher on their priority list for savings than their own retirement.

I've had many parents ask how they can save for their children's college when they're saving little or nothing for retirement. It's important to understand that when children get to college, there will be ways to pay for it. Kids can help pay their way from summer jobs, work study, financial aid, and student loans. When you're ready to retire, there is no plan B. You can't take out a "retirement loan" and no one else will support you in retirement.

Consider maxing out your employer's retirement plan to ensure you receive any company match. If you're self-employed, open a SEP-IRA or Individual 401k for potentially larger contributions. Within income limitations, fund a Roth IRA. Roth accounts grow tax free, making them one of the best deals out there. Contributions can be withdrawn at any time penalty free. If the account has been open for more than five years, you can use up to $10k of gains for qualified higher education expenses.

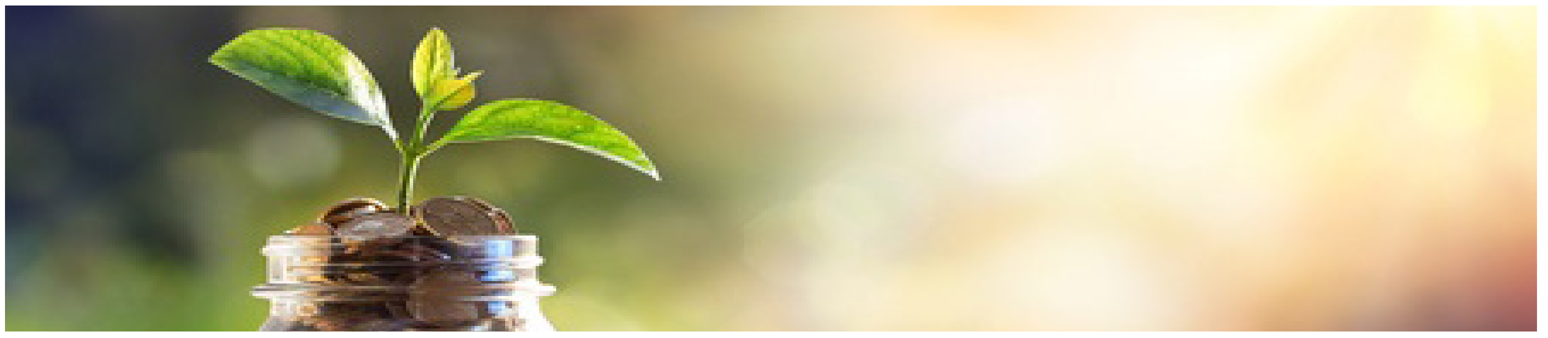
Before you focus on saving for your kids' college, it's important to make yourself a priority. It doesn't matter how old you are, invest in your own human capital. The rate of return can be greater and less volatile than stock market returns. Investing in your own education and job skills gives you opportunities to switch careers or helps you advance and earn more in your current job. You may find yourself working longer by choice, which has a domino effect by delaying Social Security and increasing retirement accounts.

Over a lifetime, clients in their 20s and 30s have a larger potential net worth than a retiree's when factoring in their human capital. This is your ability to use your skills, experience, and talent to earn income throughout your lifetime. The more you invest in your own human capital, the more it's worth.
If you have high-school-age students, help them make informed choices about college. A college education may seem like a necessity for many, but picking the right school is important. High schoolers may be pushed to apply to "reach" colleges and universities, with no idea what the financial consequences could be. Talk to your high schoolers about things their guidance counselors may not, such as how much different colleges cost; the different prices of public and private schools; how much aid or scholarships they may qualify for; and how much in loans they might have when they graduate.

Break down what their eventual monthly college loan payments could be, including interest. Explain that this could be more than a monthly mortgage payment, or even prevent them from obtaining a mortgage.

Your student should get familiar with potential careers - including salaries and work schedules. My wife graduated with a degree in hospitality. She quickly realized working nights and weekends wasn't for her and she has since strayed far from the industry. She admits work schedule was something she never considered. Speaking with your kids about this isn't crushing their dreams. It's providing a realistic perspective others may not.

No matter what, open a 529 college savings account as soon as your child is born. These accounts grow tax free if used for qualified higher education expenses. But remember, this account should not be your primary savings vehicle – that would be paying your kids first. When your kids get money for baptism, birthdays, bar mitzvah or Christmas, put it into the 529 account. When relatives give them money, tell those relatives you're adding it to your kids' college savings accounts. It may prompt them to have a heavier hand when they write their next gift checks!



Microinvesting: Building Wealth Pennies at a Time

Judy McNary, CFP®, MBA, MS
Boulder, CO

Over the past few years, my spending has transitioned from coin and paper to online and plastic. I used to take coins that accumulated in my wallet and transfer them to a big jar. Once the jar was full I would use the coins for something fun like a vacation or my first chocolate Labrador Retriever. As I have switched to online bill pay, debit and credit cards, I notice the jar doesn't fill nearly as quickly as it once did. Apparently, I am not the only one who has noticed. For the past few years, several banks have offered round-up savings programs. Any time you make a purchase using plastic, the bank calculates what your spare change would have been and transfers that to a savings account for you. The practice is referred to as 'microsaving' because you're building your savings a few pennies at a time.

More recently, several companies have developed smartphone apps that take microsaving a step farther. They have introduced 'microinvesting'. These apps allow users to invest in a diversified portfolio of stocks and bonds with as little as $5. I reviewed two of the best known, Acorns and Stash Invest. Both apps let you set up automated savings to fund your investment account. This set-it-and-forget-it approach works well as users are off and investing right away.

Acorns has a few advantages worth noting. First, it offers round-up investing, taking the virtual spare change and accumulating it for you. Once you reach $5 in accumulated spare change Acorn transfers the funds to an investment account where the money is automatically invested. Acorns offers default portfolios with low-cost offerings from Vanguard and Blackrock so the cost of investing is minimal. On the downside, the portfolios are limited; they include Emerging Markets but no International Developed investments. It seems inappropriate to me to steer novice investors toward investing in Brazil and Russia over Germany and Japan, but for small amounts of money the diversification offered should suffice. The second feature unique to Acorns is Found Money. Acorns is partnering with other firms such as JetBlue, 1-800-FLOWERS, and Hulu. Spend money with these companies and receive a 10% discount that is deposited in your Acorns account. Currently the list of partners is small (how many bouquets do you order?), but growing. Acorns seems like a good option for people with limited or no investment experience who want to dip their toes in the water. Many reviewers expressed disappointment at how long it takes (5-7 days) to get their money out of their account but this disappointment is misplaced. Investing is not like saving and these accounts should not be treated like savings accounts or ATM-equivalents. When using an app like Acorns, plan to let deposits and investments grow over time.

Stash Invest is like Acorns in helping you set up low-cost, automated investing, though it does not have round-up programs or third-party partnerships. It is intended for more actively engaged investors. Transferring money back and forth from the bank account is quicker and Stash Invest has an active social media community that shares 'investing tips'. Writing this makes me cringe. Investing should be used for long-term goals with a long-term perspective on performance. Many of the reviews for Stash Invest, as well as Acorns, referred to how much money users had made or lost in the most recent month. This isn't investing; it's gambling or playing a game. For a low-risk hands-on way to learning how markets work, both good and bad, there is value in seeing what happens when you track a micro-account closely. For true investing, however, employing a set-it-and-forget-it approach is a smarter way to go.

Acorns and Stash Invest have similar fee structures. For accounts below $5,000, the cost is $1/month (Acorns waives the fee for young college students). The fee is pretty steep on a percentage basis. Once the account reached $5,000 or more, the fees are based on a percent of assets rather than a flat monthly fee.

Probably the biggest drawback I see is that neither of the apps support retirement accounts so the investments are in taxable accounts subject to, you guessed it, taxes.

My recommendation is to assess your current situation before you microinvest, microsave. Investing in markets is risky and there are no guarantees. Make sure you have 3-6 months' living expenses safely set aside as an emergency fund first. Once you have your emergency fund in place, consider using one of the apps to begin microinvesting. Use these to invest over a long period and learn how markets work as you go. Once the account reaches $1,000, transfer the funds to a Roth IRA at a low-cost investment custodian such as Charles Schwab or Vanguard so the money can grow tax-free. There may be minimal taxes due because of the transition but the future tax-free growth in the Roth IRA will be worth it. At that point, you can reboot the accumulation plan with Acorns or Stash Invest or shift to saving directly into the Roth IRA. Establishing a save-and-invest habit will pay off. Using these apps you now can build wealth, pennies at a time.