Financial Planning

What's Your Risk Appetite?

When it comes to deciding where and how to invest your money, there are various of degrees of risk to consider. The Financial Industry Regulatory Authority (FINRA) defines risk as any uncertainty with respect to your investments that has the potential to negatively affect your financial welfare.

There are many investment vehicles available, including stocks, mutual funds, bonds and certificates of deposit. Some come with the risk of losing value depending on marketplace trends while others can come with inflation risk.

Simple research can help you decide which investment options fit your risk appetite — how much risk you're willing to take on when parking your financial assets. A local credentialed financial planner will be able to walk you through the process to make sure you're making a smart decision that is line with your financial goals.

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DIFFERENT TYPES OF RISK

FINRA has outlined the various types of risks for investors to consider. They include:

Market risk: The chance of your investment value rising or falling because of market conditions.

Business risk: Corporate decisions that may affect the value of your investments. These can include expansion, mergers and downsizing.

Currency risk: International impacts to your investment driven by global currency changes.

Concentration risk: Can occur when you fail to diversify your investments by putting them all into one place.

RISK AND REWARD

Risk isn't necessarily always a negative aspect of investment. The level of risk associated with a particular investment is directly related to the level of return your investment may earn. Are you willing to take on more risk if it means you can be rewarded with a substantially larger return? Do you have enough years left in your working career to recover from a tumultuous drop in the market.

These are questions you should ask yourself and your financial advisor before making any investment decisions. Remember that you are the ultimate decision-maker when it comes to how much risk you take in your investment strategy. Do your research and make decisive choices to ensure a brighter financial future for you and your family.

Find a Planner

There are few things more important to us than our money. That's why finding a great local financial planner is essential to the longevity of our earnings.

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Financial planners are our partners in making our money last. They advise clients on how best to save and invest money, while also avoiding too much risk and readying for major purchases such as homes, vehicles and land.

They also are instrumental in guiding us through monumental life changes, such as having a child, losing a job or inheriting an estate. Experts recommend that you hire a local financial advisor to help you navigate these complex financial situations.

Do you have specific savings goals? A financial planner can help you achieve your objectives, no matter how aggressive or simple they may be. Check your local newspaper for ads or check the National Association of Personal Financial Advisors (NAPFA) website. In most cases, NAPFA standards meet or surpass the requirements needed for a Certified Financial Planner credential — a widely recognized and respected designation in the industry.

THE RIGHT CREDENTIALS

Overwhelmed by the number of financial planners in your area? Look for the CFP certification when putting together your short list. A CFP is required to pass a rigorous test administered by the Certified Financial Planner Board of Standards. Their training spans the specifics of personal finances, investments, ethics and legal regulations.

Even when you find a credentialed planner, it still is important to make sure your personalities match up. You're going to collaborate with your planner many times, so be sure you can get along with the professional you choose to hire.

PAYMENT STRUCTURES

Different financial planners earn their fees in different ways. Planners can earn money based on commission or an hourly rate. A commission is a fee your planner earns when a specific stock or investment is purchased.

The industry is trending toward more financial planners making money only when you pay them for their counsel. These fees can be structured as a flat charge for a specific financial plan or as a percentage of all your invested assets. Be sure to have a clear understanding of how your advisor is paid before getting started.

Creating a Will

Especially if you have young children, creating a will should be a critical part of your financial planning strategy. A will can offer protection and peace of mind for your dependents in the case of your life being cut short.

You and your spouse should work with a local attorney to create a well-written will that satisfies all the standards required to legally and efficiently distribute your estate.

Along with asset management, a will also determines the naming of your child's guardian. Having this set in stone can help keep things streamlined should this decision ever have to be made.

WHY HIRE AN ATTORNEY?

There are many types of end-of-life documents that you should have prepared for the sake of your family members. These include living trusts, living wills and health-care proxies. Speak with a local attorney to determine how and when you should complete these critical pieces of your family's financial plan.

If you have a relatively simple estate, a lawyer will likely charge you just a few hundred dollars for completing a will. He or she will meet with you to discuss your needs in a collaborative, comforting process — more so than you would receive trying to write your own will.

HOW TO FIND AN ATTORNEY

You can find a qualified estate planning attorney in your neck of the woods. Check out the website of the American Academy of Estate Planning Attorneys, and never hesitate to ask a lawyer for a project cost estimate, as legal fees can vary across firms.

You also can hire a certified financial planner who specializes in estate issues. These professionals can be found on the website of the National Association of Personal Financial Advisors.

Other avenues to the best attorney for your needs include asking your friends, family members and colleagues about attorneys they have used in the past. The success of legal firms is built on referral business, so don't be shy about asking for references from past clients before making a decision.

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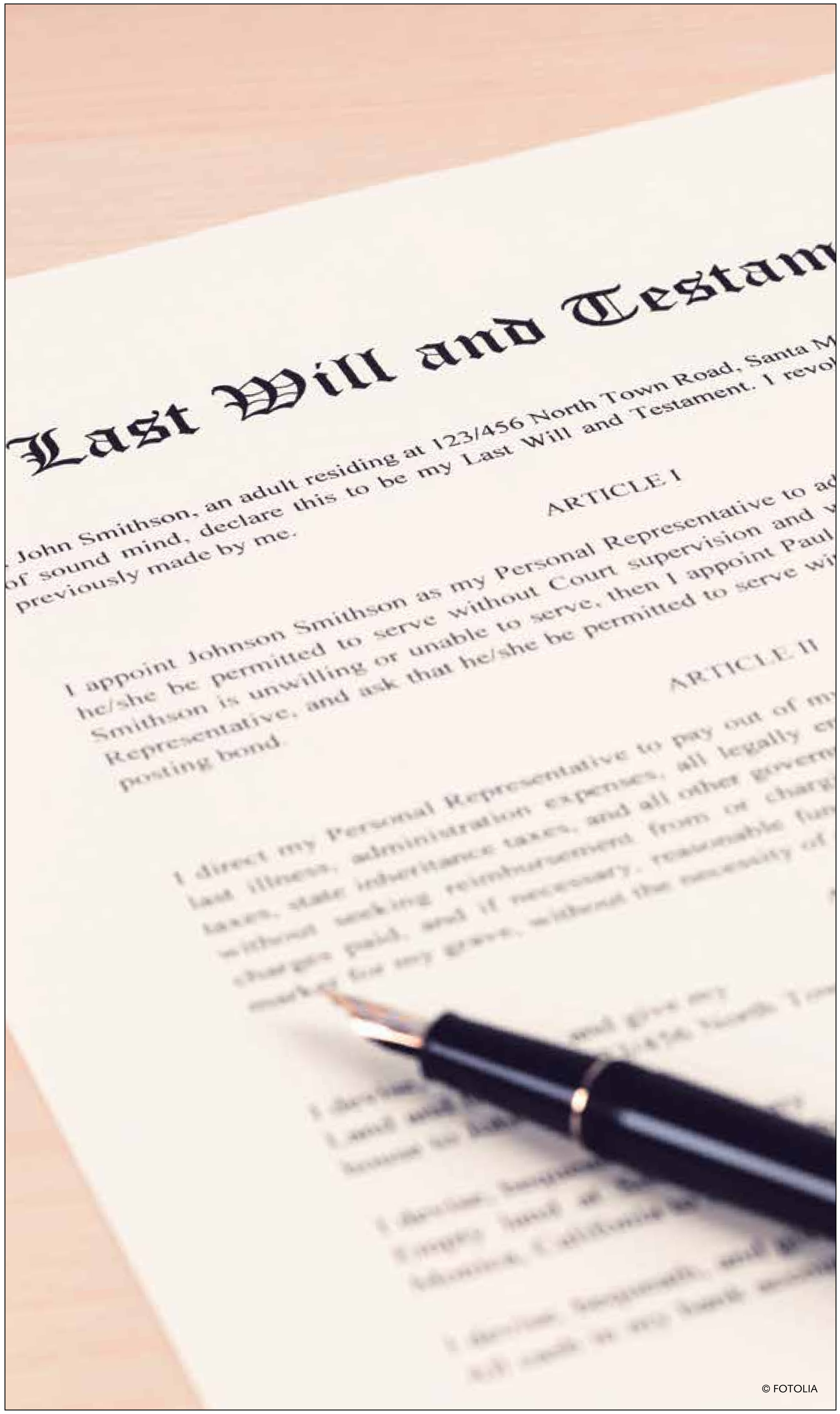

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Handling an Inheritance

Receiving an inheritance can come with a mixed bag of emotions. You might be thrust into feelings of grief for your loved one while at the same time inheriting a large sum of money that positions you for more financial independence.


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Experts agree that this period of substantial change may lead to emotional decisions about your bank account. That's why creating a self-imposed "period of patience" is the smartest decision you can make upon receiving an inheritance.

ASSESS FIRST, SPEND LATER

One of the hardest things to do with a new sum of money is to sit on it, but doing so will prevent you from acting in an irresponsible way.

Sure, you'd like to buy your dream car or put the cash toward a down payment on a beach house, but are those purchases really part of your immediate financial plan? Financial advisors recommend that you perform a comprehensive assessment of your debts and goals before spending a penny of your inheritance.

QUESTIONS TO ASK YOURSELF

When choosing the best spending and saving path for your inheritance, it's important to sit down with a local financial advisor. Some of the questions your advisor may ask you include:

- What are your short- and long-term goals? Be honest with your answer. If you haven't thought through any objectives, this is the time to work with your advisor to do so. Thinking about these types of life decisions can bring clarity to your plan.
- What financial habits have hurt you in the past? Answering this question can help you avoid traveling down that path again. Promise yourself that you will be more disciplined with your inheritance and hold yourself accountable for your decisions.
- What debts would you like to pay down? Are there high-interest debts holding you back from greater financial savings? Your outstanding student loans, credit cards and mortgage are costing you bigtime interest by the month. Work on knocking out the highest-interest debt and working through the rest of these savings-eaters.

FUND YOUR RETIREMENT

Investing in your retirement savings accounts is one of the smartest things you can do with a large inheritance. Start contributing the maximum to your 401(k) or individual account.

Allocate more of your money to a Roth IRA account, which can help you "shelter" some of your money from taxes and allow it to earn bigtime returns for your retirement future. By maximizing your savings in this area, you are letting your money work for you so you can take it easy in your golden years.

Planning for a Family?

For many of us, marriage and children are at the foundation of the American dream. It's critical to make sure we are financially prepared to take on the challenges that can come with this goal.

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There are many actions that can be harmful or risky to a new family. These include taking out high-interest loans, investing in high-risk stocks or piling up credit card debt. The ramifications of these types of decisions can actually impact your family for years to come, not just in the short-term.

Always be open with your spouse about financial decisions and goals, and work hard to teach your children about financial responsibility.

PLANNING A WEDDING

You can learn a lot about your future spouse during the wedding-planning process. Work together to pay vendor bills on time, negotiate rates and stick to your budget.

Depending on how much you have to spend, make wise choices that help stretch your dollar further. Wouldn't it be great to have some spending money left over for your honeymoon?

To get an idea of how finances will be broken down after your special day, sit down together to review each other's income and financial objectives. Do the same with your monthly expenses and decide how they will be handled.

PLANNING FOR BABY

Building an airtight financial plan for your new bundle of joy begins with a simple meeting between you and your spouse. Talk through the budget for things like transforming a bedroom into a nursery, stocking up on diapers or even buying your first round of infant clothing.

No purchase is too small when it comes to proper budgeting and saving. Also look into providing life insurance for you and your spouse. If you don't receive this benefit through your employer, there are many affordable plans for whole or term life insurance that could protect your children financially should something happen to you.

Talk with your local insurance broker to find the plan that best fits your needs.

Retirement Pitfalls

Retirement is a primary objective of many working Americans. Getting there in a timely manner can be a challenge. Living with enough financial independence to actually stay retired may be an even bigger test.

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Heading back to work after your retirement may not be in the plans, but the fact is that many Americans find themselves in the workforce well into their 60s or even beyond.

There are many contributing factors to this growing trend, including rising healthcare costs or unforeseen family circumstances. Knowing how to prepare for these issues can help you stay in the retired state of mind without worry of your nest egg drying up.

HEALTHCARE SPENDING

The climbing cost of healthcare as we age is one of the primary reasons many seniors are forced into post-retirement work.

The Bureau of Labor Statistics estimates that the typical 55- to 64-year-old spends more than 8 percent of their annual income on health care. Once they reach age 65, it climbs to more than 12 percent.

SAVING TOO LITTLE

An analysis from the National Institute on Retirement Security found that 65 percent of American households are at risk of falling short in retirement. Experts recommend $1 million or more to be spread across savings, investments and life insurance accounts.

The mean retirement savings for households aged 56 to 61 is less than $164,000, according to data from the Economic Policy Institute. Filling in the gap can be a challenge for seniors, especially without proper financial planning throughout their working lives.

PRE-RETIREMENT TIPS

When it comes to making sure your retirement funds last for years to come, effective saving and budgeting practices are critical.

Work with your local financial advisor to talk through your current savings rate, as well as what you can expect in Social Security benefits. You may consider downsizing your home or cutting out other expenses today in favor of a brighter, more secure financial future.

Life Insurance Basics

Life insurance can be critical to taking care of your family should something happen to you. Is your life insured? If so, do you know all the details of your life insurance policy? If not, are there certain factors keeping you from purchasing a policy?

There are two basic types of life insurance to consider. Term insurance covers you for a set period of time (usually 10 or 20 years). This is the more affordable type of insurance, especially while you're young. The price rises as you age, so the younger you can purchase a plan the better. Whole insurance lasts a lifetime if you maintain payment on the premiums. These policies tend to cost much more but can be locked into fixed rates.

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BY THE NUMBERS

Northwestern Mutual conducted a nationwide survey in 2015 that uncovered some surprising data regarding how Americans think and feel about life insurance.

More than 5,000 U.S. adults aged 18 and older were surveyed, with the following results:

- Only 51 percent of Americans own life insurance.
- The primary reason more Americans don't own a life insurance policy is that it is generally misunderstood.
- 14 percent of U.S. adults say they don't own life insurance because they don't know much about it or never thought about it.
- Other barriers: too expensive (43 percent) and low priority level (31 percent) compared to other expenses.
- The majority of the population is aware of the death benefits permanent life insurance provides.
- Only 23 percent knew life insurance can be used to pay mortgages and debts, while only 15 percent of those surveyed knew it could be put toward estate taxes.
- 8 percent knew it can be used as a source of cash flow in retirement.
- Millennials are particularly likely not to have given thought to life insurance, with twice as many (28 percent) saying they have never thought about it or don't know much about it, compared to the general population (14 percent) who said the same.