Callahan Financial
Joseph Callahan, CFP®
9428 Kenwood Road
Cincinnati, OH 45242
513-421-0800
joe@callahancincy.com
www.callahancincy.com

Callahan Financial Newsletter

Keeping you current

Surviving the College Application Process

There's no doubt about it--the college application process can be stressful for many high school students and their parents. After all, it's easy to feel overwhelmed while trying to manage numerous applications, each with varying deadlines and requirements. If your child is applying to college, here are some things to keep in mind before he or she gets started.

Application timeline

For students applying under the regular decision process, college applications are generally submitted in the late fall or winter of your child's senior year of high school, with acceptance or rejection letters arriving in the spring. While application timelines vary, depending on the college, many colleges open their application process by the first week of September. In addition, a growing number of colleges offer "rolling" admission, which typically provides notice of acceptance a few weeks after an application is submitted.

Many students also take advantage of an early application process in which they can apply early to a college and find out whether they are accepted before regular applicants. Early application deadlines are usually in October or November. There are two main early application options--early action and early decision. With early action, your child can apply to several schools and has until the normal deadline (typically May 1) to decide which one to attend. With early decision, your child applies to only one college and, if accepted, must commit to attending immediately. Not every college offers early action or early decision.

Application requirements

Each college has its own application requirements. However, many colleges use the Common Application, which includes:

- High school transcript
- SAT/ACT scores
- Biographical and family information
- List of extracurricular activities, hobbies, and interests
- Letters of recommendation (from teachers typically, but sometimes community leaders)
- Personal essay
- Application fee

While some application requirements are not open to interpretation, your child will have the chance to stand out from the pack through his or her reference letters and personal essay. These two items are unique parts of the application because they can help the admissions team distinguish your child from other applicants.

The importance of staying organized

One of the most important things you and your child can do during the college application process is to stay organized. You'll want to keep track of the various application deadlines on one centralized calendar that both of you can access. You should also create a separate filing system to help organize the applications and correspondence for each college.

A word on independent educational consultants

Hiring an independent educational consultant to help with the college admissions process has become increasingly popular in recent years, especially with high-achieving seniors. An independent educational consultant can help you and your child select the appropriate college to fit your child's academic and social needs, and can also help manage application requirements and deadlines.

The cost of educational consultants depends on the types of services provided. Comprehensive, multi-year consulting packages can cost upwards of several thousand dollars. However, consultants may also offer more affordable hourly rates and a la carte services.

June 2016 Newsletter

Debt Optimization Strategies

You may be able to improve your financial situation by implementing certain debt payoff strategies that can reduce the time you make payments and the total interest you pay. Before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including any prepayment penalties.

Note: All examples are hypothetical and used for illustrative purposes only. Fixed interest rates and payment terms are shown, but actual interest rates and payment terms may change over time.

As part of improving your financial situation, you might consider reducing your debt load. A number of strategies can be used to pay off debt. However, before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including interest rates, terms of payment, and any prepayment or other penalties.

Understand minimum payments (a starting point)

You are generally required to make minimum payments on your debts, based on factors set by the lender. Failure to make the minimum payments can result in penalties, increased interest rates, and default. If you make only the minimum payments, it may take a long time to pay off the debt, and you may have to pay large amounts of interest over the life of the loan. This is especially true of credit card debt.

Your credit card statement will indicate the amount of your current monthly minimum payment. To find the factors used in calculating the minimum payment amount each month, you need to review terms in your credit card contract. These terms can change over time.

For credit cards, the minimum payment is usually equal to the greater of a minimum percentage multiplied by the card's balance (plus interest on the balance, in some cases) or a base minimum amount (such as $15). For example, assume you have a credit card with a current balance of $2,000, an interest rate of 18%, a minimum percentage of 2% plus interest, and a base minimum amount of $15. The initial minimum payment required would be $70 [greater of ($2,000 x 2%) + ($2,000 x (18% / 12)) or $15]. If you made only the minimum payments (as recalculated each month), it would take you 114 months (almost 10 years) to pay off the debt, and you would pay total interest of $1,314.

For other types of loans, the minimum payment is generally the same as the regular monthly payment.

Make additional payments

Making payments in addition to your regular or minimum payments can reduce the time it takes to pay off your debt and the total interest paid. The additional payments could be made periodically, such as monthly, quarterly, or annually.

For example, if you made monthly payments of $100 on the credit card debt in the previous example (the initial minimum payment was $70), it would take you only 24 months to pay off the debt, and you would pay total interest of just $396.

As another example, let's assume you have a current mortgage balance of $100,000. The interest rate is 5%, the monthly payment is $791, and you have a remaining term of 15 years. If you make regular payments, you will pay total interest of $42,343. However, if you pay an additional $200 each month, it will take you only 11 years to pay off the debt, and you will pay total interest of just $30,022.

Another strategy is to pay one-half of your regular monthly mortgage payment every two weeks. By the end of the year, you will have made 26 payments of one-half the monthly amount, or essentially 13 monthly payments. In other words, you will have made an extra monthly payment for the year. As a result, you will reduce the time payments must be made and the total interest paid.

Pay off highest interest rate debts first

One way to potentially optimize payment of your debt is to first make the minimum payments required for each debt, and then allocate any remaining dollars to the debts with the highest interest rates.

For example, let's assume you have two debts, you owe $10,000 on each, and each has a monthly payment of $200. The interest rate for one debt is 8%; the interest rate for the other is 18%. If you make regular payments, it will take 94 months until both debts are paid off, and you will pay total interest of $10,827. However, if you make monthly payments of $600, with the extra $200 paying off the debt with an 18% interest rate first, it will take only 41 months to pay off the debts, and you will pay total interest of just $4,457.

Use a debt consolidation loan

If you have multiple debts with high interest rates, it may be possible to pay off those debts with a debt consolidation loan. Typically, this will be a home equity loan with a much lower interest rate than the rates on the debts being consolidated. Furthermore, if you itemize deductions, interest paid on home equity debt of up to $100,000 is generally deductible for income tax purposes, thus reducing the effective interest rate on the debt consolidation loan even further. However, a home equity loan potentially puts your home at risk because it serves as collateral, and the lender could foreclose if you fail to repay. There also may be closing costs and other charges associated with the loan.

CALLAHAN FINANCIAL

Four Reasons Why People Spend Too Much

You may be more likely to overspend on a particular purchase compared to other possible expenditures. According to research conducted by the Consumer Reports National Research Center, adults in the United States reported that they would spend money on the following throughout the year:

- ***54%--electronics***
- ***33%--appliances***
- ***27%--a car***
- ***23%--home remodeling***

Source: Consumer Reports, November 2014

You understand the basic financial concepts of budgeting, saving, and monitoring your money. But this doesn't necessarily mean that you're in control of your spending. The following reasons might help explain why you sometimes break your budget.

1. Failing to think about the future

It can be difficult to adequately predict future expenses, but thinking about the future is a key component of financial responsibility. If you have a tendency to focus on the "here and now" without taking the future into account, then you might find that this leads you to overspend.

Maybe you feel that you're acting responsibly simply because you've started an emergency savings account. You might feel that it will help you cover future expenses, but in reality it may create a false sense of security that leads you to spend more than you can afford at a given moment in time.

Remember that the purpose of your emergency savings account is to be a safety net in times of financial crisis. If you're constantly tapping it for unnecessary purchases, you aren't using it correctly.

Change this behavior by keeping the big picture in perspective. Create room in your budget that allows you to spend discretionary money and use your emergency savings only for true emergencies. By having a carefully thought-out plan in place, you'll be less likely to overspend without realizing it.

2. Rewarding yourself

Are you a savvy shopper who rarely splurges, or do you spend too frequently because you want to reward yourself? If you fall in the latter category, your sense of willpower may be to blame. People who see willpower as a limited resource often trick themselves into thinking that they deserve a reward when they are able to demonstrate a degree of willpower. As a result, they may develop the unhealthy habit of overspending on random, unnecessary purchases in order to fulfill the desire for a reward.

This doesn't mean that you're never allowed to reward yourself--you just might need to think of other ways that won't lead to spending too much money. Develop healthier habits by rewarding yourself in ways that don't cost money, such as spending time outdoors, reading, or meditating. Both your body and your wallet will thank you.

If you do decide to splurge on a reward from time to time, do yourself a favor and plan your purchase. Figure out how much it will cost ahead of time so you can save accordingly instead of tapping your savings. Make sure that your reward, whether it's small or big, has a purpose and is meaningful to you. Try scaling back. For example, instead of dining out every weekend, limit this expense to once or twice a month. Chances are that you'll enjoy going out more than you did before, and you'll feel good about the money you save from dining out less frequently.

3. Mixing mood with money

Your emotional state can be an integral part of your ability to make sensible financial decisions. When you're unhappy, you might not be thinking clearly, and saving is probably not your first priority. Boredom or stress also makes it easy to overspend because shopping serves as a fast and easy distraction from your feelings. This narrow focus on short-term happiness might be a reason why you're spending more than normal.

Waiting to spend when you're happy and thinking more positively could help shift your focus back to your long-term financial goals. Avoid temptations and stay clear of stores if you feel that you'll spend needlessly after having an emotionally challenging day. Staying on track financially (and emotionally) will benefit you in the long run.

4. Getting caught up in home equity habits

Do you tend to spend more money when the value of your assets--particularly your property--increases? You might think that appreciating assets add to your spending power, thus making you feel both wealthier and more financially secure. You may be tempted to tap into your home equity, but make sure you're using it wisely.

Instead of thinking of your home as a piggy bank, remember it's where you live. Be smart with your home equity loan or line of credit--don't borrow more than what is absolutely necessary. For example, you may need to borrow to pay for emergency home repairs or health expenses, but you want to avoid borrowing to pay for gratuitous luxuries that could put you and your family's financial security at risk. After all, the lender could foreclose if you fail to repay the debt, and there may be closing costs and other charges associated with the loan.

Callahan Financial
Joseph Callahan, CFP®
9428 Kenwood Road
Cincinnati, OH 45242
513-421-0800
joe@callahancincy.com
www.callahancincy.com

Can I make charitable contributions from my IRA in 2016?

Yes, if you qualify. The law authorizing qualified charitable distributions, or QCDs, has recently been made permanent by the Protecting Americans from Tax Hikes (PATH) Act of 2015.

You simply instruct your IRA trustee to make a distribution directly from your IRA (other than a SEP or SIMPLE) to a qualified charity. You must be 70½ or older, and the distribution must be one that would otherwise be taxable to you. You can exclude up to $100,000 of QCDs from your gross income in 2016. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional $100,000 of QCDs. But you can't also deduct these QCDs as a charitable contribution on your federal income tax return--that would be double dipping.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to take from your IRA in 2016, just as if you had received an actual distribution from the plan. However, distributions (including RMDs) that you actually receive from your IRA and subsequently transfer to a charity cannot qualify as QCDs.

For example, assume that your RMD for 2016 is $25,000. In June 2016, you make a $15,000 QCD to Qualified Charity A. You exclude the $15,000 QCD from your 2016 gross income. Your $15,000 QCD satisfies $15,000 of your $25,000 RMD. You'll need to withdraw another $10,000 (or make an additional QCD) by December 31, 2016, to avoid a penalty.

You could instead take a distribution from your IRA and then donate the proceeds to a charity yourself, but this would be a bit more cumbersome and possibly more expensive. You'd include the distribution in gross income and then take a corresponding income tax deduction for the charitable contribution. But the additional tax from the distribution may be more than the charitable deduction due to IRS limits. QCDs avoid all this by providing an exclusion from income for the amount paid directly from your IRA to the charity--you don't report the IRA distribution in your gross income, and you don't take a deduction for the QCD. The exclusion from gross income for QCDs also provides a tax-effective way for taxpayers who don't itemize deductions to make charitable contributions.