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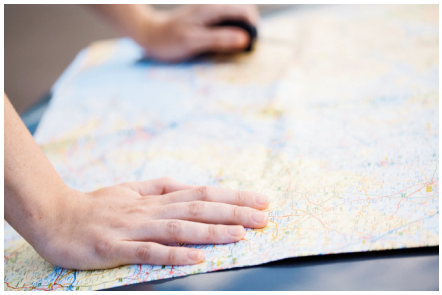
Your Financial Road Map

Are you making progress toward your financial goals? Are your finances in order? Are you prepared for a financial emergency? If you're not sure, take time to thoroughly assess your finances so you have a road map for your financial life:

Assess Your Financial Situation

Evaluating where you currently stand financially will help you determine how much progress you are making toward your financial goals. There are several items to consider:

✔ **Your net worth** — Prepare a net worth statement, which basically lists your assets and liabilities with the difference representing your net worth. Prepared at least annually, it can help you assess how much financial progress you are making. Ideally, your net worth should be growing by several percentage points over inflation.



✔ **Your spending** — Next, prepare a cash-flow statement, detailing your income and expenditures for the past year. Are you happy with the way you spent your income? You may be surprised by the amount spent on nonessential items like dining out, entertainment, clothing, and vacations. This awareness may be enough to change your spending patterns. But more likely, you will need to prepare a budget to help guide your future spending.

✔ **Your debt** — Debt can be a serious impediment to achieving your financial goals. To assess how burdensome your debt is, divide your monthly debt payments excluding your mortgage by your monthly net income. This debt ratio should not exceed 10% to 15% of your net income, with many lenders viewing 20% as the maximum. If you are in the upper limits or are uncomfortable with your debt level, take active steps to reduce your

Continued on page 2

Straighten Out Your Financial Accounts

It's not uncommon to accumulate things over the years without taking time to straighten them out periodically. That applies to our finances as well as our possessions. Often these assets are acquired without a clear-cut strategy, so you may own assets with similar investment objectives or that are not compatible with your financial goals. If you feel it's time to straighten out your finances, consider these steps:

✔ Make a list of all your assets and debts. List each one individually, so you have a sense of how many different accounts you have.

✔ Go through each one of your investments. Make sure you understand why you own each one. Assess the prospects of each investment and decide whether you should continue to own it.

✔ Look for ways to consolidate accounts. Try to get down to one bank account, one brokerage account, and one IRA.

✔ Assess your outstanding debts. Do you really need all those credit cards? Consider keeping only one or two cards, so it'll be easier to monitor balances. Look for ways to reduce the cost of your borrowing. Is it time to take another look at refinancing your mortgage? ❍❍❍

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Financial Road Map

Continued from page 1

debt or at least lower interest rates.

Increase Your Savings

Calculate how much you are saving as a percentage of your income. Is it enough to fund your future financial goals? If not, go back to your spending analysis and look for ways to reduce expenditures. That may mean reassessing your lifestyle choices, since you'll need to live below your means to find money to save. Commit to saving more immediately and then take steps to make that commitment a reality. For instance, you may decide to increase your saving by $25 per week through your 401(k) plan at work. To do that, you may need to forgo your daily stop for coffee and a donut, cut back on how often you dine out, and reduce your monthly clothing allowance. Not sure it's worth that much sacrifice to save $25 a week? After 20 years, that weekly $25 savings could grow to $63,811 at an 8% annual rate of return, before the payment of any income taxes. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)*

Rebalance Your Investments

At least annually, thoroughly analyze your investment portfolio:

✔ Review each investment in your portfolio, ensuring that it is still appropriate for your situation.

✔ Calculate what percentage of your total portfolio each asset type represents, compare this allocation to your target allocation, and decide if changes are needed.

✔ Compare the performance of each component of your portfolio to an appropriate benchmark to identify investments that may need to be changed or monitored more closely.

✔ Finally, calculate your overall rate of return and compare it to the return you estimated when setting up your investment program. If your actual return is less than your targeted return, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future.

Prepare for Financial Emergencies

To make sure you and your family are protected in case of an emergency, set up:

✔ A reserve fund covering several months of living expenses. The exact amount you'll need depends on your age, health, job outlook, and borrowing capacity.

✔ Insurance to cover catastrophes. At a minimum, review your coverage for life, medical, homeowners, auto, disability income, and personal liability insurance. Over time, your insurance needs are likely to change, so you may find yourself with too much or too little insurance.

Review Your Estate Plan

Take a fresh look at your estate-planning documents and review them every couple of years. Even if the increases in exemption amounts mean your estate won't be subject to estate taxes, there are still reasons to plan your estate. You probably still need a will to provide for the distribution of your estate and name guardians for minor children. You should also consider a durable power of attorney, which designates someone to control your financial affairs if you become incapacitated; and a healthcare proxy, which delegates healthcare decisions to someone else when you are unable to make them.

If you'd like help evaluating your finances, please call. ❍❍❍

Choosing Beneficiaries for Your 401(k) Plan

When you sign up for your 401(k) plan, you will typically be asked to fill out a beneficiary designation form, listing who should receive your 401(k) plan assets when you die. Make these selections carefully, since they typically override any provisions in your will.

If you are married, federal law dictates your spouse is automatically your 401(k) plan's beneficiary. Even if you list another person as the primary beneficiary, your spouse will receive the proceeds unless he/she signs a written waiver. Thus, even if you are separated but not divorced from your spouse, he/she will be entitled to your 401(k) proceeds after your death.

Similarly, if you remarry and want to keep your children from a previous marriage as the beneficiaries, you must have your current spouse sign a waiver. You should not rely on a prenuptial agreement or other document.

When your beneficiaries are minor children, keep in mind that most 401(k) plans will not transfer money directly to a minor. Thus, you may want to set up a trust, so the trustee can take immediate control of the funds. Otherwise, a court-appointed trustee or guardian may need to be named before your children will have access to the funds.

If you are single and don't name a beneficiary, the proceeds will go to your estate and be distributed with the rest of your assets.

Periodically review your beneficiaries to determine if changes are needed. A divorce, remarriage, spouse's death, or child's birth are all events that may require changes to beneficiaries. ❍❍❍

Estate Planning for Blended Families

In a blended family, it can be difficult to determine what's "yours, mine, and ours," but it's an issue that needs to be addressed. While this may be an emotional and uncomfortable conversation at times, do your best to keep the emotion out of the mix as you work through the myriad issues that need to be reviewed.

Discovery

The first step in developing an estate plan in a blended family is for you and your spouse to have a very open conversation to discover:

✔ **Plans that you may have from previous marriages —** To understand how previous arrangements might impact your new plan, you will need to review any plans that you have in place from previous marriages, including wills, trusts, beneficiary designations, guardianship, etc. For example, your current spouse may not be entitled to a retirement account if it was part of a divorce settlement specifying that it goes to your previous spouse.

✔ **Goals and wishes —** Each of you needs to clearly define your goals for upholding previous obligations, how guardianship will be handled for both biological and stepchildren, and how you want your separate or combined assets distributed. This is extremely important, because how assets are owned determines how they will be distributed in the future. For example, imagine if your spouse passes away and unbeknownst to you, all assets were left to the children from a first marriage, while you don't have enough money to pay the monthly bills. Straightforward communication is the key to developing a blended estate plan.

✔ **Together or separate —** Commingling or keeping assets separate can depend on several factors a couple needs to decide. If one party brought in significant assets, you may decide to keep those separate while commingling assets that you build together. Children also play a major role in this decision. Maybe you already have college accounts or trusts established for your children from a previous marriage and those assets should remain separate. Many parents feel strongly about setting aside assets specifically for their children from a previous marriage. Again, forthright communication is key.

✔ **Review the marital property laws in your state —** Make sure you understand how your state laws govern the way you hold assets. For example, if you live in a community property state, any assets not identified as separate will be considered equally owned as community property of the couple, even if they were assets you intended to keep separate because they were acquired prior to the marriage.

Documentation

While you may feel it's overkill, you need to document every detail of your estate plan to avoid potential issues down the line, especially if you have children and former spouses. Also, this legal documentation will help avoid the expensive and potentially emotional issues involved with probate court.

✔ **Wills —** You should create a will that provides clear instructions on how all of your assets are to be distributed, guardianship for minor biological and stepchildren, healthcare directives, and any other wishes to be carried out should either of you become incapacitated or die.

✔ **Trusts —** Blended families should consider developing a trust, which holds the assets on behalf of and defines how and when the assets pass to the beneficiaries. A trust can also last for years, through the lifetimes of a surviving spouse, children, and even future generations. For blended families, certain types of properly established trusts can provide financial support for your spouse and still make sure something is left for your children.

✔ **Account titles —** Even if you have a will or trust, you will also want to make sure that accounts such as a retirement account have defined beneficiaries. Additionally, other accounts can be owned as joint tenants with right of survivorship or transfer on death, making the owner's intentions clear that the assets go directly to the party named on the account.

Please call if you'd like to discuss this in more detail. ❍❍❍

News and Announcements

The professionals at Gotleib & Associates have been providing financial services for 32 years, and as a result, our clientele is aging. We encourage you to schedule your periodic investment review so we may verify your beneficiary designations, review your wills, set up Durable Powers of Attorney, and make sure your affairs are in order. Many of our clients are introducing us to their children so they have a trusted relationship with us, as well. We recently sent a form for you to appoint a "Trusted Contact" we should contact on your behalf in the event there are concerns about your financial welfare. If you have not done so already, please complete the form and return it to our office, so we have it on file in the event we need to convey information on your behalf.

We were able to enjoy a positive stock market with very little volatility over the past year. Beginning January 23, the stock markets began to correct and experience extreme volatility. The uncertainty of having a new Federal Reserve Chairman combined with the best economic data we've experienced in many years adds uncertainty as to possible future interest-rate hikes. Historically, it is normal for markets to correct periodically while the economy continues to strengthen. As long as there is no recession in sight and fundamentals continue to improve, these corrections allow for new dollars to flow into the market at reduced levels and may possibly continue to push the markets to higher levels over time.

Our message is always the same: remain disciplined to your long-term investment objectives. Please feel free to contact our office at any time if you have any questions or concerns.

As always, our best compliment comes from our clients. Many of you have children who are preparing for their retirement, or neighbors, coworkers, friends, or relatives who may benefit by having a relationship with Gotleib and Associates. If you are pleased with our level of service and the relationship you maintain with us, then you are doing others a favor by recommending our services to them.

The opinions expressed are subject to change with economic and market conditions. They are not meant as investment advice. Forward-looking statements and market forecasts cannot be guaranteed and may not come to pass.

Quick Math

Don't have a calculator handy, but need a quick answer to a financial question? Here are three shortcuts:

✔ **How long will it take to double your money?** Divide 72 by your annual investment return. If you are earning 8% annually, it takes nine years for your investments to double in value.

✔ **How much does it cost to purchase an item before taxes?** Multiply the cost by 1.8 if you are in the 37% marginal tax bracket, 1.7 in the 35% or 32% tax brackets, 1.5 in the 24% tax bracket, 1.4% in the 22% tax bracket, and 1.2 in the 12% and 10% tax brackets. These numbers also factor in Social Security and Medicare taxes, but not state income taxes. So, if you are in the 35% marginal tax bracket and want to spend $10,000 on a vacation, it will cost $17,000 before taxes.

✔ **How much will your retirement savings grow in 30 years?** Assuming an 8% investment rate of return, add a zero to the amount. Thus, if you have $100,000 today, it could grow to $1,000,000 in 30 years. This is a handy way to look at whether it's worth spending money on something. ❍❍❍

Financial Thoughts

Individuals with a net worth of $1 to $5 million had their assets invested as follows: 55% in investable assets, 16% in their principal residence, 12% in defined-contribution accounts, 8% in insurance and annuities, 6% in investment real estate, and 2% in privately held businesses (Source: Spectrem Group, 2017).

Approximately 83% of millionaires have an undergraduate degree or higher (source: Spectrem Group, 2017).

The average age of individuals with a net worth of $1 to $5 million is 62 years old, 66 years old with a net worth of $5 million to $25 million, and 52 years old with a net worth of more than $25 million (Source: Spectrem Group, 2017).

A 65-year-old couple retiring in 2017 will need $275,000 to cover healthcare costs throughout retirement, which is 6% higher than last year. 35% of the costs relate to Medicare premiums and 65% to out-of-pocket costs. These numbers don't include dental, nursing home, or long-term care costs. Since 2002, these healthcare costs have increased 70% (Source: Fidelity Investments, 2017). ❍❍❍