

Carmel-Quintero Financial

Planning Your Financial Future

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What Happened to Your Money?



If you don't know what happened to your money during the past year, it's time to find out. December and January are the perfect months to look back at what you earned, saved, and spent, as W-2s, account

statements, and other year-end financial summaries roll in.

How much have you saved?

If you resolved last year to save more or you set a specific financial goal (for example, saving 15% of your income for retirement), did you accomplish your objective? Start by taking a look at your account balances. How much did you save for college or retirement? Were you able to increase your emergency fund? If you were saving for a large purchase, did you save as much as you expected?

How did your investments perform?

Review any investment statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relationship to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions?

Did you reduce debt?

Tracking your spending is just as important as tracking your savings, but it's hard to do when you're caught up in an endless cycle of paying down your debt and then borrowing more money. Fortunately, end-of-year mortgage statements, credit card statements, and vehicle financing statements will all spell out the amount of debt you still owe and how much you've really been able to pay off. You may even find that you're making more progress than you think. Keep these paper or online statements so you have an easy way to track your progress next year.

Where did your employment taxes go?

If you're covered by Social Security, the W-2 you receive from your employer by the end of January will show how much you paid into the Social Security system via payroll (FICA) taxes collected. If you're self-employed, you report and pay these taxes (called self-employment taxes) yourself. FICA taxes help fund future Social Security benefits, including retirement, disability, and survivor benefits, but many people have no idea what they can expect to receive from Social Security in the future.

This year, get in the habit of checking your Social Security Statement annually to find out how much you've been contributing to the Social Security system and what future benefits you might expect, based on current law. To access your Statement, sign up for a *my* Social Security account at the Social Security Administration website, socialsecurity.gov.

Did your finances improve?

Once you've reviewed your account balances and financial statements, your next step is to look at your whole financial picture. Taking into account your income, your savings and investments, and your debt load, did your finances improve over the course of the year? If not, why not?

Next, it's time to think about the changes you would like to make for next year. Start by considering the following questions:

- What are your greatest financial concerns?
- Do you need help or advice in certain areas?
- Are your financial goals the same as they were last year?
- Do you need to revise your budget now that you've reviewed what you've earned, saved, and spent?

Use what you've learned about your finances to set your course for the new year ahead. Challenge yourself to save more and spend less so that you can make steady financial progress.

December 2018

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Cartoon: Happy New Year

Are my student loans eligible for public service loan forgiveness?

Talking to Your Teen About Money



Parents play an important role in shaping their children's financial behaviors and attitudes toward money.

You probably feel comfortable talking to your teen about things like school, sports, and clothing. But how do you feel about talking about money? While it may be a tricky topic to broach, odds are that your teenager will rely on you to learn basic financial management skills. And the teenage years can be a critical learning period. According to a report by the Consumer Financial Protection Bureau, it's important to establish strong financial decision-making habits in the teen years because it will help your child better navigate his or her financial life as an adult.¹

Prepare your teenager for the financial challenges of adulthood by talking to him or her about the following topics.

Handling an income

Whether your teen earns an allowance from you or works a part-time job, he or she will need guidance on what to do with the income. Set some expectations regarding your teen's pay. How much of it will be discretionary? Will your teen start contributing to his or her share of a monthly cell phone bill, or would you prefer for your child to set aside a portion of each paycheck for college?

When your teen earns his or her first paycheck, take time to sit down and review the information on the pay stub or online statement. Help your child understand what certain terms mean, such as gross pay, net pay, federal income tax, state income tax, Social Security tax, and Medicare tax. Show your teen how income taxes can affect take-home pay.

Building a budget

Help your teen learn to be accountable for his or her finances by developing a spending plan. Start by listing all sources of regular income (e.g., an allowance or earnings from a part-time job). Next, ask your teen to identify regular expenses. Depending on what you and your child have agreed on, that might include car insurance, a cell phone bill, or clothing expenses. Take the total expenses and subtract them from your teen's total income.

If this exercise shows that your child won't have enough income to meet his or her expenses, help your teen come up with a plan for making up the shortfall. Suggest ways to earn more money or cut back on expenses, but resist the temptation to bail out your teen. The point of establishing a budget is to give your child a taste of what it's like to earn an income and pay expenses without running out of money.

Setting and saving for financial goals

In the past, your teenager probably came to you for money to pay for items that he or she wanted. Now that your teen has a steady source of income, it's time for him or her to make purchases independently. Your child may be ready to start saving for larger goals such as a new computer or a car and longer-term goals such as college. Encourage your teen to save by putting these goals in writing to make them more concrete. Consider offering incentives, such as matching what your teen saves toward a long-term goal. For example, for every dollar your child sets aside for college, you might contribute 50 cents or more.

Remember to praise your teen for showing responsibility when a goal is reached. Your approval, as well as the sense of accomplishment your teen will feel, can help reinforce healthy savings habits.

Getting familiar with credit

While credit card companies require an adult to co-sign a credit card agreement before they will issue a card to someone under the age of 21, you shouldn't ignore the credit card issue altogether. Teach your teen about establishing and maintaining good credit. Explain how credit card interest is calculated and emphasize the importance of paying bills on time. Don't be afraid to share your experience using credit with your child — personal examples can be a great way to help him or her learn.

Becoming a smart shopper

Encourage your teenager to spend money wisely. Teach your child to ask questions before making a purchase, such as:

- Why do I want this item? Am I buying something because I really want it, or because all of my friends have it?
- Can I really afford this item?
- Do I need to buy this item now, or can I set aside money to buy it at a later time?
- Am I getting a good deal on this item, or should I shop around for a more affordable alternative?

Remember that talking to your teenager about money now can help him or her establish a more financially stable future.

¹ Report Brief: Building Blocks to Help Youth Achieve Financial Capability, Consumer Financial Protection Bureau, September 2016

Reviewing Your Estate Plan



An estate plan should be reviewed periodically, especially after a major life event. Here are some ideas about when to review your estate plan and some things to review when you do.

An estate plan is a map that explains how you want your personal and financial affairs to be handled in the event of your incapacity or death. Due to its importance and because circumstances change over time, you should periodically review your estate plan and update it as needed.

When should you review your estate plan?

Reviewing your estate plan will alert you to any changes that need to be addressed. For example, you may need to make changes to your plan to ensure it meets all of your goals, or when an executor, trustee, or guardian can no longer serve in that capacity. Although there's no hard-and-fast rule about when you should review your estate plan, you'll probably want to do a quick review each year, because changes in the economy and in the tax code often occur on a yearly basis. Every five years, do a more thorough review.

You should also review your estate plan immediately after a major life event or change in your circumstances. Events that should trigger a review include:

- There has been a change in your marital status (many states have laws that revoke part or all of your will if you marry or get divorced) or that of your children or grandchildren.
- There has been an addition to your family through birth, adoption, or marriage (stepchildren).
- Your spouse or a family member has died, has become ill, or is incapacitated.
- Your spouse, your parents, or another family member has become dependent on you.
- There has been a substantial change in the value of your assets or in your plans for their use.
- You have received a sizable inheritance or gift.
- Your income level or requirements have changed.
- You are retiring.
- You have made (or are considering making) a change to any part of your estate plan.

Some things to review

Here are some things to consider while doing a periodic review of your estate plan:

- Who are your family members and friends? What is your relationship with them? What are their circumstances in life? Do any have special needs?

- Do you have a valid will? Does it reflect your current goals and objectives about who receives what after you die? Is your choice of an executor or a guardian for your minor children still appropriate?
- In the event you become incapacitated, do you have a living will, durable power of attorney for health care, or Do Not Resuscitate order to manage medical decisions?
- In the event you become incapacitated, do you have a living trust or durable power of attorney to manage your property?
- What property do you own and how is it titled (e.g., outright or jointly with right of survivorship)? Property owned jointly with right of survivorship passes automatically to the surviving owner(s) at your death.
- Have you reviewed your beneficiary designations for your retirement plans and life insurance policies? These types of property pass automatically to the designated beneficiaries at your death.
- Do you have any trusts, living or testamentary? Property held in trust passes to beneficiaries according to the terms of the trust. There are up-front costs and often ongoing expenses associated with the creation and maintenance of trusts.
- Do you plan to make any lifetime gifts to family members or friends?
- Do you have any plans for charitable gifts or bequests?
- If you own or co-own a business, have provisions been made to transfer your business interest? Is there a buy-sell agreement with adequate funding? Would lifetime gifts be appropriate?
- Do you own sufficient life insurance to meet your needs at death? Have those needs been evaluated?
- Have you considered the impact of gift, estate, generation-skipping, and income taxes, both federal and state?

This is just a brief overview of some ideas for a periodic review of your estate plan. Each person's situation is unique. An estate planning attorney may be able to assist you with this process.

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Are my student loans eligible for public service loan forgiveness?

If you are employed by a government or not-for-profit organization, you may be able to receive loan forgiveness

under the Public Service Loan Forgiveness (PSLF) Program. The PSLF, which began in 2007, forgives the remaining balance on federal Direct Loans after you have made 120 monthly payments under a qualifying repayment plan while working full-time for a qualifying employer.

Qualifying employers for PSLF include: government organizations (e.g., federal, state, local), not-for-profit organizations that are tax-exempt under Section 501C(3) of the Internal Revenue Code, and other types of not-for-profit organizations that are not tax-exempt if their primary purpose is to provide certain types of qualifying public services.

If you plan on applying for PSLF in the future, you should complete and submit an Employment Certification form annually or when you change employers. The U.S. Department of Education will use the information on the form to let you know if you are making qualifying PSLF payments.

You can apply for PSLF once you have made 120 qualifying monthly payments towards your loan (e.g., 10 years). Keep in mind that you must be working for a qualifying employer both at the time you submit the application and at the time the remaining balance on your loan is forgiven.

Recently, PSLF made headlines due to the fact that many borrowers who thought they were working toward loan forgiveness under the program found out they were ineligible because they were in the wrong type of repayment plan. Many borrowers claimed they were told by their loan servicer that they qualified for PSLF, when in fact they did not. In 2018, Congress set aside \$350 million to help fix this problem. The Consolidated Appropriations Act provides limited, additional conditions under which borrowers may become eligible for loan forgiveness if some or all of the payments they made on their federal Direct Loans were under a nonqualifying repayment plan for the PSLF Program. For more information on PSLF, visit studentaid.ed.gov.