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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

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Here is your August 2012 edition of The Financial Formula! Please let me know if you have any questions - enjoy!

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In This Issue

How to Be a Good Financial Role Model for Your Child

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Parents overwhelmingly believe that they -- not the schools, the government, or any other third party -- should provide financial education to their children. Yet most don't practice what they preach.[1]

Less than one-third of parents (29%) believe they are "excellent" financial role models for their minor children. The ability to communicate about money appears to be a major obstacle to education within the family: A greater number of parents say they are more prepared to talk about drugs and alcohol (32%) or sex and dating (28%) than money and finances (26%).[2]

Teaching the Basics and Beyond

The benefits of teaching your children about money early on can pay dividends both immediately and longer term. In the short term, children may develop strong saving habits, learn how to make smart purchases, begin to understand the true meaning of "investment," and perhaps even learn why they can't immediately get everything they want. In the long term, educating children about money now can help them avoid debt as adults. And by teaching children the value of saving for the future at a young age, you can help them establish the groundwork for a lifetime of financial security.

Tips to Help You and Your Child

Even very young children can begin to understand the concept of earning money. Here are some tips.

- Explain to your children that money is earned by working, and that you can only spend what you earn.
- Bring them shopping with you and point out the differences in prices for various necessities, such as food and clothing.
- Begin paying them an allowance for chores completed to help them understand what it's like to get paid on a fixed schedule for doing regular work.
- Help them set goals for how they spend and save their allowance. It's important, however, to make sure that you stick to the payment schedule; otherwise the lesson may be lost.
- Open a savings account in their name and make a point to sit down with them to review their account balance every month.

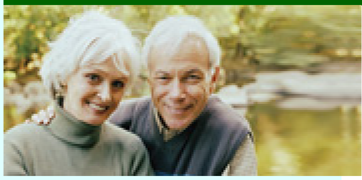
Regardless of their age, encourage your children to set aside a portion of their allowance or earnings for their financial goals. As they save money, you might reward them with a small additional amount, just like a bank pays interest. At the end of each month, calculate how much they have saved and then chip in a certain percentage as interest.

As your children get older, their savings will likely amass at a quicker rate. That presents an ideal opportunity to review the lesson of compounding, or the ability of earnings to build upon themselves. Explain how compounding can be more dramatic over time. The longer money is left alone, the greater the effect may be. This can lead into a discussion about investing and how certain investments can have a greater ability to compound over time.

Teaching your children about money may seem daunting, but it can help put them on the right track by encouraging smart habits.

[1] *Source: T. Rowe Price, "Parents, Kids and Money Survey," April 2011.*

[2] *Source: ING Direct, April 2011.*



Marriage and Your Finances

Marriage affects your finances in many ways, including your ability to build wealth, plan for retirement, plan your estate, and capitalize on tax and insurance-related benefits. There are, however, two important caveats. First, same-sex marriages are not legal in most states and are not recognized by the federal government. Second, a prenuptial agreement, a legal document, permits a couple to keep their finances separate, protect each other from debt, and take other actions that could limit the rights of either partner.

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Building Wealth

If both you and your spouse are employed, two salaries can be a considerable benefit in building long-term wealth. For example, if both of you have access to employer-sponsored retirement plans and each contributes $17,000 a year to a 401(k), as a couple you are contributing $34,000, far in excess of the maximum contribution of an individual ($17,000 for 2012). Similarly, a working couple may be able to pay a mortgage more easily than a single person can, which may make it possible for a couple to apply a portion of their combined paychecks for family savings or investments.

Retirement Benefits

Some (but not all) pensions provide benefits to widows or widowers following a pensioner's death. When participating in an employer-sponsored retirement plan, married workers are required to name their spouse as beneficiary unless the spouse waives this right in writing. Qualifying widows or widowers may collect Social Security benefits up to a maximum of 50% of the benefit earned by a deceased spouse.

Estate Planning

Married couples may transfer real estate and personal property to a surviving spouse with no federal gift or estate tax consequences until the survivor dies. But surviving spouses do not automatically inherit all assets. Couples who desire to structure their estates in such a way that each spouse is the sole beneficiary of the other need to create wills or other estate planning documents to ensure that their wishes are realized. In the absence of a will, state laws governing disposition of an estate take effect. Also, certain types of trusts, such as QTIP trusts and marital deduction trusts, are restricted to married couples.

Tax Planning

When filing federal income taxes, filing jointly typically results in lower tax payments when compared with filing separately.

Debt Management

In certain circumstances, creditors may be able to attach marital or community property to satisfy the debts of one spouse. Couples wishing to guard against this practice may do so with a prenuptial agreement.

Family Matters

Marriage may enhance a partner's ability to collect financial support, such as alimony, should the relationship dissolve. Although single people do adopt, many adoption agencies show preference for households that include a marital relationship.

The opportunity to go through life with a loving partner may be the greatest benefit of a successful marriage. That said, there are financial and legal benefits that you may want to explore with your partner before tying the knot.

Delaying retirement can reduce the need to tap a nest egg.

Closing the Retirement Savings Gap

Many retirement plan participants know that investing for their later years should be among their top financial priorities. But it is not always easy to translate what we know we should do into a plan of action, according to results of the State Street Global Advisors Defined Contribution Investor Survey.[1]

The following retirement action gaps were evident in the survey results:

- 82% of respondents believed it was important to know how to make retirement savings last a lifetime, but only 28% knew how to accomplish this objective.
- 83% were willing to reduce their household budget by at least 5% to save more.
- 67% knew that adjusting their investments over time was important, but only 30% knew how to do this.
- 52% were willing to increase their savings rate to as high as 10% of their salary if their employer was willing to automatically increase their savings rate by 1% each year.

If you see yourself in any of the following statements, consider whether the following strategies could be helpful.

- **Review potential sources of retirement income.** There are several sources of retirement income that can complement Social Security benefits. With a traditional employer-sponsored retirement plan, required minimum distributions (RMDs), based on the investor's account balance and life expectancy, are required after age 70½. If you have a traditional rollover IRA that contains retirement assets from a prior employer, RMDs are required from traditional IRAs as well. Your financial advisor can help you review annuities, dividend-paying stocks, bonds, and other potential sources of retirement income. Potentially delaying retirement, even if only for a few years, could postpone your need to tap your nest egg.
- **Consider ideas that could help you free up cash to invest for retirement.** Many retirement investors are paying more for higher education, property taxes, and other expenses than they had planned. But families can cut back with some creativity. Consider whether you could switch to a less expensive cell phone plan, purchase a used vehicle if an existing vehicle needs replacement, eat out less often, or plan a more modest vacation.
- **Rebalance as part of an annual investment review.** You may want to consider reviewing your investment mix once a year to ensure that your portfolio maintains your desired exposure to risk and potential return. In certain instances, market returns can cause a portfolio to drift from the desired investment mix. If you would like to adjust your investment mix, you may be able to allocate future contributions to the area you would like to increase or reduce your existing allocation in an area where you would like to cut back.

These are only a few ideas that may be helpful in taking action on the road to retirement. Your financial advisor can help you assess potential sources of retirement income and help you build a plan designed to pursue your goals.

[1]*Source: State Street Global Advisors, "401(k) Investors Willing and Able to Save More; 'Action Gap' Reveals Confusion That Dominates Many Retirement Decisions," July 18, 2012.*