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# NAPFA

## *Planning Perspectives*

### Advice to Get Your 2011 Started on the Right Foot

As we move towards the end of 2010, the media will be filled with advice on how to become healthier, wealthier, and wiser in the upcoming year. Year-end and year-beginning advice is part of our cultural DNA, and we’ve become so accustomed to it that it often passes without notice. And that’s a shame.

The truth is that all of us can stand for some improvement in the next year. No matter how comfortable we are financially, we can do better. For most of us, the last three years have forced us to take a more careful look at our saving and spending patterns, as a weak stock market has reduced our expectations for big investment gains. For those of us who are financially secure, awareness of those in need has surely grown during that same time; we can find ways to use our wealth for our enjoyment, as well as for the benefit of others.

This issue of “NAPFA Planning Perspectives” provides a quick dose of ideas for next year. NAPFA members who contributed to this issue of the newsletter present a range of thoughts—from a good, old-fashioned New Year’s resolution to build a larger “emergency funds” account, to an exploration of the concept of “purposeful spending.”

Enjoy this issue of Planning Perspectives, and have a safe and wonderful holiday season.



## Free Consumer Webinars: Family Finances & Retirement

NAPFA’s free Consumer Webinar Series™ will continue on a monthly basis in 2011. All seminars are from noon to 1 p.m., Central time, and registration can be made by going to [www.napfa.org](http://www.napfa.org), and going to the link for Consumer Webinars. The next two webinars are:

- On January 7, Marilyn Capelli Dimitroff, CFP®, will speak about **Managing Family Finances**. This session will be targeted specially for women who are the “family CFO,” directly responsible for managing family budgets and watching over investments and retirement plans.
- On February 4, Elaine Bedel, CFP®, will speak about **What Do You Need in Retirement?** This session will help participants figure out the amount of money they need in retirement by showing how to realistically assess what they currently have, what spending will look like in retirement, and what it will take to get there.

Past webinars are archived on NAPFA’s website and can be accessed without charge.



# Financial Planning

## New Year's Resolution: Get Educated!

By Laura Mattia, MBA, CFP®, CRPS®, CDFATM • Baron Financial Group, LLC • [www.baron-financial.com](http://www.baron-financial.com)

Events of the last few years have shown the limits on the ability of government regulation to protect investors from financial harm. Whether it's stolen investments or falsified mortgage and foreclosure records, unscrupulous people are preying on others. Sadly, the situations only come to light after a great deal of damage has been done.

Even the creation of the new Consumer Financial Protection Agency is going to provide only limited protection.

What's the answer? Frankly, investors need to protect themselves. Ignoring what is going on in your own financial world is a big mistake, and the damage could be irreversible if it's not attended to promptly.

Make a New Year's resolution. Promise yourself that you will become fully engaged in and aware of your financial situation and that you will take responsibility for the decisions that you have made. Wealthy or not wealthy, schooled or not schooled, you need to know how much money you have and how much money you might need. Those are the first steps towards coming up with a plan for your financial future.

You must act as your own money advocate and protect yourself from abusive financial practices and scams. I have heard it argued that the average level of financial literacy in this country is so low that the average person will not be able to evaluate all the financial products in the marketplace, and therefore they shouldn't even try. This argument is ridiculous.

The reality is that few people will understand everything about the plethora of financial products, but it's just as true that they don't have to. You simply need to understand the basics and have a general understanding about your investments and financial products that you have purchased (mortgages, insurance, and so on).

Generally, you should stick to what you understand—and if you don't understand a financial product, don't go there. If you use an advisor, don't be afraid to ask questions—over and over again, if necessary. After all it is your money!



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# Financial Planning

## How Purposeful Spending Works

By Troy VonHaefen, CFP® • Von Haefen Financial Management • [www.vhfinancialmanagement.com](http://www.vhfinancialmanagement.com)

Recently, I met some friends at a local bagel shop for breakfast. After paying over \$6.50 for a bagel with cream cheese and bottle of juice, I realized how expensive this establishment was for some of the regular patrons. I watched a father buy his sons breakfast before school, moms in workout clothes dropping in for quick jolt of caffeine before hitting the gym, and a few high school kids with coffee mugs the size of milk jugs.

As I sat in astonishment at the number of people that patronized the shop at 6:30 a.m., I wondered how many of these folks came here every day. From the familiarity of exchanges between the clerk and the customers, I supposed this was routine for many.

I started to calculate the monthly outlay of the “average” bagel shop customer, when it hit me that maybe I was missing the point. I regularly speak to my clients regarding cash flow, and one of the most important elements we discuss is purposeful spending: that is, spending your hard-earned money on things that really matter or bring joy into your life. By developing a budget that establishes purposeful spending, we can create a healthy relationship with our money, rather than an angry, oppositional, or frustrating encounter every time we open our wallets.

Purposeful spending applies to all people of all economic classes. Wealthy people may enjoy purposefully spending through charitable giving, while those with less may simply enjoy their time together with the family at a local restaurant.

### How Purposeful Spending Works

Creating a purposeful spending philosophy has to work hand-and-glove with fiscal responsibility. Obviously, the necessities of life must be paid first, before

you can save for the necessities and joys of tomorrow. The money that remains is often called “discretionary funds.” Purposeful spending comes largely from discretionary funds.

I feel it is important to understand that many of our purchases are choices, especially discretionary purchases. Focus on the areas of your spending that bring you joy, and try to reduce spending in areas that do not. I often encounter families that overspend in areas that are in opposition to their life goals or just cannot be justified.

This brings me back to the bagel shop. Maybe I didn’t see the whole picture, for I suppose the father might work long days and enjoy the focused time with his sons every morning. It could be their tradition, rather than a financial drag on their monthly budget. Maybe the pilates moms wanted someone else to make the coffee once in awhile. That would certainly qualify for purposeful spending. (What about the teens? Well, I don’t pretend to understand teens. That’s certainly fodder for a different professional.)

The key to purposeful spending is to align discretionary outlays with sustainable joy and happiness, not with purchases that generate a short-term jolt that isn’t sustainable. It’s about experiences such as time with friends and family, rather than keeping up with the Joneses. Developing a spending mentality that enables you to feel good about what and where you spend your money can lead to a new level of financial freedom.

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## Ten Tools for Building an Emergency Fund

By Jean Keener, CRPC, CFP • Keener Financial Planning • [www.keenerfinancial.com](http://www.keenerfinancial.com)

**Y**ou know you need an emergency fund. You've been trying to build one, but you just can't seem to get there.

The percentage of people living paycheck-to-paycheck ranges, depending on who's conducting the survey: 47 percent, according to Careerbuilder, and 71 percent according to the American Payroll Association's survey. Either way, it's a large number.

Moreover, being strapped financially isn't unique to any particular income level. Careerbuilder found that 21 percent of Americans with incomes above \$100,000 per year say that they are living paycheck-to-paycheck.

How can you get on a better path? First, set a goal. Ideally, you'd like to have six months of living expenses in an emergency fund. But for a true paycheck-to-paychecker, thinking about the ideal makes you laugh. So, start with a manageable goal of \$1,000. Then when you reach that target, raise your goal to one month's expenses. Then raise it to three months' expenses and so on.

Importantly, you should not give yourself a lot of time to save that initial \$1,000. You want to create a sense of urgency for that first milestone. Of course, speed depends on your income level, but even a few months is realistic for many people. I'd say that no one should set a goal of more than six months, or the urgency is lost.

Next, you need to do specific things to move towards your goal. Here are 10 things you can do to build that emergency fund. I suggest that you pick three of them and start working on them today:

1. Set up an automatic transfer from checking to savings on your payday. Make it large enough to be a little painful initially, but not so much that you can't stick with it.

2. Take a one-month spending vacation. Don't starve yourself or skip doctor's appointments if you're sick, but don't buy anything that's not absolutely necessary. Put all of your extra money at the end of the month into your emergency fund.

3. Have a garage sale or sell your stuff on Craigslist or eBay. Some people can generate the \$1,000 from this alone.

4. Use three-paycheck or five-paycheck months. If you get paid every other week, then there are two months each year when you have a third paycheck. If you get paid every week, then you get a fifth paycheck approximately every three months. Most people just absorb this extra paycheck into their spending. Instead, make sure you're living strictly on your regular number of paychecks each month, and identify the months where you'll receive an extra one, and put that money directly into your emergency fund.

5. If you get extra money through a bonus, overtime, or an extra commission, put it in your emergency fund.

6. If you get a raise, calculate how much extra you will get on your first check after the raise, and increase your automatic transfer to your emergency fund by that amount. Don't increase your spending.

7. Get a part-time job or start a small business (without a lot of overhead), and save everything you earn from it.

8. Write down all of your expenses for an entire month. Then, pick at least two to eliminate or reduce.

9. If you're part of the 21 percent of people earning more than \$100,000 who is living paycheck-to-paycheck, when you max out on the amount that is taken out in Social Security (the income limit will be \$106,800 in 2011, unchanged from 2010) and your paycheck goes up, put the extra money in the bank instead of spending it.

10. If the above aren't enough to get you there, consider big changes like driving a less-expensive car or moving to a less costly home.

One final tip: Write down your commitment, and show it to someone. Your chances of success increase exponentially when you publically commit to your goals. It can be a simple statement: I will save \$\_\_\_\_\_ by \_\_\_\_\_ (this date) by doing items 1)\_\_\_\_\_, 2)\_\_\_\_\_, and 3)\_\_\_\_\_.

Good luck!



## Save Early, Save Often

By Joseph Alfonso, CFP®, ChFC, EA • Aegis Financial Advisory • [www.aegisadvisory.com](http://www.aegisadvisory.com)

Investors fret about the performance of their portfolios. They worry whether they will be able to realize a rate of return sufficient to help them meet their goals, and they ask if they are taking on enough (or too much) risk to achieve this. While these are valid concerns, they are ultimately beyond anyone's control. Other than diversifying broadly to lower-volatility investments and keeping investment and tax costs low, there is nothing we can do to determine the actual rate of return on our investments; the markets will ultimately decide our fate.

There is, however, something that is completely within our control and that can have a great impact on whether we achieve our life goals. Indeed, by forming certain habits early, we can help reduce the rate of return that we need to realize on our investments—and even how much we need to invest in the first place. I am referring to the habit of saving.

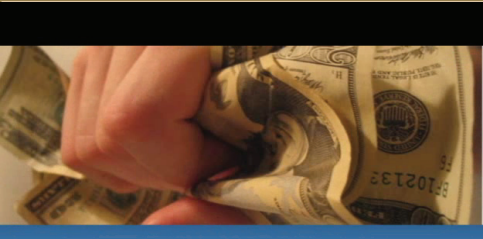
Perhaps the greatest risk each of us faces is not saving enough to meet our long-term needs. Saving as much as we can and beginning this practice early allows our money to grow exponentially with time, through the magic of compounding. Just how significant an advantage one can reap from an early commitment to saving can be illustrated in the following example.

Ben and Jerry are twin brothers. Ben decides to begin saving at age 30 at a rate of \$10,000 per year. He continues to do this until the age of 40, at which time he stops saving altogether. Jerry waits until he turns 45 to begin saving. He puts away \$15,000 per year until retiring at the age of 65. If we assume both brothers earned the same 7 percent average annual rate of return, how much did each accumulate by the age of 65?

First, let's compare how much each brother socked away. Ben saved a total of \$100,000, but Jerry saved \$300,000. Yet, despite saving more and over a longer period of time, it turns out that Jerry winds up with the smaller nest egg. At age 65, Jerry's savings will have grown to about \$615,000, but Ben's will have reached nearly \$750,000. That is the magic of compounding.

The moral of the story is that we are more in control of our financial destinies than we think. By deciding to save early and often, we can minimize the need to risk our money in the stock market, since even modest rates of return over long periods of time yield impressive sums. The secret to getting rich is to do so slowly, saving as much as we can for as long as possible. So take matters in your own hands and get started, now.





## Briefly Noted...

### The Medical Family and Money

By Linda Gadkowski, M.Ed., CFP® • Beacon Financial Planning, Inc. • [www.beaconfinancialplanning.com](http://www.beaconfinancialplanning.com)

*I work with many medical professionals, and I give the following advice. It applies broadly to any head of a household who is working long hours in a stressful job and is being rewarded financially, yet might be leaving gaps in other parts of his or her life.*

In your family, you are the major bread winner. This means you leave before the kids go to school and often come home at bed time. This leaves very little time for your family and children. Sometimes, you lavish presents or money on them to assuage your guilt about not being home.

Kids need time more than money. This doesn't mean just going on vacation with them or taking them to the hospital with you and leaving them with the nurses while you make rounds. Create a relationship with

your kids that teaches them about your work, your commitment to it, and the money you make to provide for their needs.

Develop a savings strategy with them. Give your children allowances on a weekly basis for their chores. Some studies suggest \$1.00 for each age year is appropriate. They can spend half and save half. You and your children can plan their chores and discuss the options and consequences. Teach your children good money habits, and you will be far richer for it.

The discussion can be an important part of their understanding of why you are not home as often as you would like, how the family works together, and how they are part of the family team.

### Life Insurance in Retirement? Probably Not

By Warren McIntyre • VisionQuest Financial Planning, LLC • [www.visionquestfinancial.com](http://www.visionquestfinancial.com)

*I*t's common to find retired people who still own life insurance, even though the need for life insurance usually ends when a person's income comes mostly from pensions, Social Security, and investments.

The main purpose of life insurance is to replace lost income when a wage-earner dies prematurely. While it's true that pension and Social Security income are usually reduced for a married couple upon the first death, lower expenses and other offsetting factors usually negate the need to own life insurance during retirement.

One justification given by cash-value policy holders is that they no longer pay premiums. But they are overlooking a very important fact: their premiums are being paid from the cash value. These payments, which typically increase every year, will eventually deplete the cash value, at which point the policy will lapse. In other words, there is a cost of owning life insurance, whether or not the premium payments are visible.

Your need for life insurance should be reassessed every few years.

# Consumer Education



## Managing Family Finances

January 7, 2010

Noon to 1:00 pm CT

Instructor Marilyn Capelli Dimitroff, CFP®  
NAPFA-Registered Financial Advisor  
Past Chair of the Certified Financial Planner (CFP) Board of Standards

Women today have been thrust into the position of the “Family CFO”, making them directly responsible for managing family budgets and watching over investments and retirement plans. This session will explore how women today can manage this important role prudently while discussing the many areas of family finance.

## What Do You Need in Retirement?

February 4, 2010

Noon to 1:00 pm CT

Instructor Elaine Bedel, CFP®  
NAPFA-Registered Financial Advisor

Everyone knows that one day they will retire, but knowing what you actually need to retire requires an understanding of where you stand right now and what you will need in the future. This session will explore how you can figure out your “retirement number” by looking closely at how you assess what you currently have and what more you will need to make retirement a reality.

**Visit our website [www.napfa.org](http://www.napfa.org) to register.**

**All NAPFA consumer webinars are FREE.**

*Wishing you and your family a  
very happy and healthy  
Holiday Season!!*

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