financial *focus*

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ADVICE FOR NEW PARENTS

by Claire Emory, CFP®, CFA, MBA Arlington, VA

Becoming a parent is one of those transitions that tend to make you step back and think of the big picture. It's a chance to take stock and reassess your financial plan as you move into an exciting—and expensive—new phase of your life. Having a child not only shifts your emotional terrain, it alters the financial ground as well. The website **www.Babycenter.com** has an enlightening calculator that can give you a sense of how much it costs to raise a child in your region of the country, based on the range of your household income, whether you're single or a co-parent, live in a metropolitan or rural area, and whether you plan to pay for college. For example, a couple living in a city in New England, with an annual income of $100,000 or higher and planning to pay for public college, will spend an average of $499,400 from birth to age 18, including $78,380 for public college. These figures are in 2010 dollars, adjusted for inflation, from the U.S. Department of Agriculture annual report "Expenditures on Children by Families."

Seeing those average expense figures may prompt you to take a close look at your savings habits. If you run into bumps in the road ahead, which happens to most of us sooner or later, do you have adequate liquidity to make it through the rough patches smoothly? Are you saving automatically for retirement from each paycheck or regularly putting money into a retirement account if you're self-employed?

Your first thought, with regard to long-term savings, might be to worry about your child's college education, but funding your own retirement must take priority. Most likely, you'll be supporting yourself after you retire for far longer than your child will be in college, and you cannot take out a low-interest loan or qualify for a scholarship to fund your retirement years. If you're already maximizing your retirement contributions, you can think about taking the next step and starting a college fund, preferably funded by automatic monthly transfers.

Now is also a good time to review your insurance coverage. None of us knows what the future may hold, and you want to be able to offer your child a financially secure upbringing no matter what happens. Do you have enough term life coverage to adequately replace your income, including paying for college if that's a desired goal, if you were to die prematurely? Even more importantly, do you have sufficient disability coverage, preferably provided by or purchased through your employer? Losing income as a result of illness or injury is far more common than dying before retirement age and can compromise the lifestyle you hope to offer your child. According to the Social Security Administration, 3 of every 10 workers will become disabled at some point before reaching retirement. Most of those disabilities are due not to accidents but to relatively common chronic illnesses such as cancer, heart disease, and multiple sclerosis. Although a fair number of companies offer short-term disability coverage, not so many cover long-term disability. Social Security provides benefits to those who have been disabled for more than five months, whose disability is expected either to last a full year or end in death, and who are unable to work at *any* occupation. Multiple applications are usually required to qualify, and the benefits average around $1,000 per month. It's worth checking with your employer to find out exactly what coverage is available to you, taking advantage of group coverage where

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INSIDE THIS ISSUE

BREAKING UP ISN'T ALWAYS HARD TO DO

by Bridget Sullivan Mermel, CFP®, CPA Chicago, IL

People of all political stripes are exploring the advantages of using local banks and financial institutions. "Breaking up with your bank" doesn't have to be difficult if you follow these four suggestions.

Suggestion 1: Stop auto-pays originating from your current bank account

The big banks focus on convenience; they were the first to figure out that online banking makes it more difficult to leave the institution. Banks have found that if you have a lot of auto-pays set up through online banking, it's tough to switch banks.

To prepare for the breakup, stop auto-pays; paying everyone manually through your online banking system is fine. Consider getting regular paychecks instead of direct deposits. Or find out what your payroll department will require for you to change the direct deposit of your check. Once you have switched to a new bank and feel good about it, go ahead and start up the auto-pays again.

Suggestion 2: Explore your local community banks

Local community banks are privately owned local banks, which means they take deposits and loan them out to the local community. Large national banks may do some community lending, but with local community banks your dollars on deposit should help the local economy, not trickle off into corporate Never-Never Land or the derivatives market.

You can usually find a local community bank that is convenient to where you live or work. Online banking will probably be available, perhaps with an interface that seems more basic than with the too-big-to-fails. When I got fed up with my big bank, I checked the ratings on www.yelp.com before picking North Community Bank in Chicago for a lot of my banking.

Suggestion 3: Investigate credit unions

Credit unions are created when groups of people pool their resources, hire a manager to run the operation, and provide their own financial services. Credit unions are owned by their members and can limit their membership. They are run typically in a straightforward manner with transparent agendas. They're not trying to lure you in and extract fees. They're trying to provide the best service to the most members.

Often credit unions originate with employers. I'm still a member of Summit Credit Union in Wisconsin, which I joined because my coworkers at my part-time job working for the state government when I was in college told me it was a good deal. Other credit unions have geographic boundaries. Try this website to help you locate a credit union that might work for you: www.findacreditunion.com.

Suggestion 4: Find a community development bank

Just add "development" to a community bank, and you have another type of bank. Community banks lend money to the community at large, whereas community development banks focus their lending on people who don't have access to regular banking. In other words, they reach out to the economically disadvantaged.

Community development banking has taken off since legislation that encourages it was passed in the 1990s. It represents a rapidly growing sector of banking, but there are far fewer community development banks than either community banks or credit unions. Although the FDIC insures deposits up to $250,000, this type of bank typically lacks some of the convenience factors of other banking institutions.

For a list of major community development banks, check http://en.wikipedia.org/wiki/Community_development_bank.

For many people, the ideal would be banking at a community development bank down the street. Unfortunately, most people don't have that available. Like many decisions, picking a bank requires striking a balance between idealism and pragmatism.

MAKE SURE YOU BUY AND ARE NOT SOLD

by Michael Ryan, MBA Hendersonville, TN

Although I have never thought of myself as a particularly gifted salesperson, I have always enjoyed watching one at work. Good salespeople are artists, and volumes have been written about how to be one. If you Google "how to sell," you will get about 460 million responses. Selling is an old and honorable profession. If you have it, someone sold it, so I would never denigrate salespeople. But I do want to make some observations about how "selling"can have an impact on our financial lives.

The best salespeople are totally committed to their products. They see no gray areas; they see only that your life, as well as theirs, will be better once you buy their product. They allow no doubt to enter their minds and hopefully not yours. And salespeople are always selling. A good salesperson realizes that eventually someone always buys.

I was reminded of the effects of "selling" recently when I spoke with a friend. He had just endured the heartbreak of divorce and had been trying to get his financial life back in order. He asked me to look at his finances and offer suggestions. As I was reviewing his holdings, I noticed he owned an annuity. He was able to tell me what company had issued the annuity but not much else about it. He was not sure how much it was worth, how long the surrender period lasted, or what the surrender penalty would be. He was unaware that the IRS usually imposes a penalty on money withdrawn from annuities before the owner reaches age 59½. And more importantly, he did not know what he was trying to accomplish when he had acquired the annuity. In other words, he was "sold" the annuity.

This scenario happens all too often with financial products. Unless consumers educate themselves before talking with a good salesperson, they may find themselves being sold a product they do not need that will not accomplish what they want to accomplish. If a product is sold, the salesperson's interests and biases may play a bigger role than the consumer's actual needs.

If you cannot explain a financial product fairly succinctly to someone else, you may not need it. Most financial products that we as consumers really need are straightforward and logical; they make sense. We can understand what we are getting and what we are trying to accomplish when we buy them. If you have to be sold a product, a product that you cannot easily understand or explain, you very likely do not need it as much as the salesperson needs to sell it.

Contact a member of the Alliance of Cambridge Advisors for the help you may need to determine if you are "buying" or being "sold" a financial product.

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possible and supplementing that with an individual policy if necessary to replace at least 60% of your income.

Even, or especially, in the midst of the joy of birth, the prospect of death cannot be ignored. This new being depends on you completely, and part of your obligation is to ensure that he or she would be well taken care of if something were to happen to you. An up-to-date will is essential, with a primary guardian and backup guardian designated. Keep in mind that if you're married and your spouse dies without a will, you will not necessarily inherit all of the assets. Quite a few states have intestacy laws that divide the assets between the surviving spouse and any children of the marriage. Assets left to a minor child are then administered by a court-appointed guardian under court supervision until the child reaches age 18 or 21, depending on the state.

Choosing a guardian is often a difficult task for parents and easy to put off. Ask yourself: Who would you prefer make the decision of who would raise your child if you were to die prematurely, yourself or whichever judge happens to get the case if you die without having designated a guardian? Yes, it's a hard decision, but you'll feel much better once you've made it. If you don't have family or aren't comfortable designating a family member, think about who would be likely to raise your child with the values and lifestyle most congruent with your own. And keep in mind that the designation isn't etched in stone for the next 18 years: you can revise it later if circumstances change.

Don't forget that your new little bundle needs a Social Security number. If you didn't deliver in a hospital or weren't given a form after the birth, contact your local Social Security Administration office. A Social Security number is needed to claim child-related tax breaks, to add your baby to your health insurance plan, to set up a college savings plan for the little one, and for various other purposes.

Once you know you have all your financial ducks in a row, you can focus on making the most of your new expanded family life.

THE FEAR OF BUDGETING

by Ken Robinson, JD, CFP®, AIF®   Cleveland, OH

Have you ever worried about money? Chances are you have. And you probably weren't concerned you'd have too much. Worry about money is usually an expression of fear that we won't have enough.

I often speak to groups about how to save more money out of every paycheck. At one presentation a few years ago, my host had introduced me and I was just stepping up to the lectern. But before I could say anything, someone from the audience spoke up:

"I'm *not* giving up my cell phone!"

This guy was nervous that I'd say he couldn't keep this expensive part of his life. Those seven words—"I'm *not* giving up my cell phone" speak volumes about why saving is often so difficult.

Fear and anxiety are common reactions to the subject of budgeting. Many people are concerned they won't have enough money to buy basic necessities. Although this is true for lots of families, many others believe they are in this category when they're actually not. If a family buys a wide-screen TV and then complains about being short of cash, chances are their problem isn't that they have too little money available.

Even so, those with much more than they need for their survival often resist the call to save money. It's not that they don't know how. Almost every adult has heard of a budget and could probably explain to you how it works. So what makes budgeting so uncomfortable that many prefer to tolerate being frightened about not having enough money?

Consider what the budgeting process asks people to do. They're supposed to examine all their spending and determine how much goes for food, rent, transportation, entertainment, and every other category in their lives. Many budgeters don't want to face what they'll learn. "I've been afraid to look at how much we spend eating at restaurants," a client told me recently. He knows it's too much, but it's more painful to actually know the amount than to remain willfully ignorant, even though frequent eating out leaves him unable to save as much as he'd like.

Even if budgeters don't think they're spending more than they should, they're already thinking, "I'm *not* giving up my cell phone." Because after they identify all their spending, they know what's coming next: they have to decide where they can cut back, what they can do without. The unpleasantness of having to do this can dwarf the danger of not being able to pay all their bills or not being able to save for their own self-sufficiency.

Even worse than the risk of giving up things we want, budgeting is a threat to the way we are viewed by others, as well as how we tend to see ourselves. Our culture teaches us that who we are is largely determined by what we possess and what we show to the rest of the world. Of course, we all know there are qualities about us that are far more important than money or possessions.

But most of us want to be like the people we hang out with and the people we'd *like* hang out with (although this strong need often goes unrecognized). When budgeters decide "I can't afford that," it can feel like an attack on their sense of themselves and their very idea of who they are or who they thought they could be.

This is the most significant roadblock to budgeting. It's not the saving that bothers people. For powerful (often unconscious) reasons, the problem is facing up to the cutbacks needed to achieve the savings. It's like that old joke about the man who lost his balance and nearly fell off the roof. "It's not the fall that would bother me," he said. "It's the sudden stop at the end."

The difficulty with budgeting is why so many advisors prefer to have their clients *pay themselves first*. If you're meeting your bills and saving enough for your future goals, very often it doesn't matter where the rest goes.

You probably would benefit from making a traditional budget. But for those who can't budget or find it too painful, saving money is not a lost cause. Putting money aside out of every paycheck as soon as you get paid is often the most effective way to fund your future goals.