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CRAIG WILLEKE'S FINANCIAL NEWS DIGEST

MONEYLINE

Financial Well-Being

Courtesy of Craig Willeke, LUTCF, CLTC

In an important report earlier this year, the federal Consumer Financial Protection Bureau defined an essential part of its mission: to help Americans achieve "financial well-being."

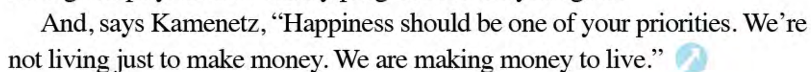
Financial well-being is a holistic concept that connects money to the rest of life. It asks the question, What are we managing our money for? According to the CFPB, those who enjoy financial well-being have four basic attributes: They have control over day-to-day and month-to-month finances; they have the capacity to absorb a financial shock; they are on track to meet financial goals; and they have the financial freedom to make the choices that allow them to enjoy life.

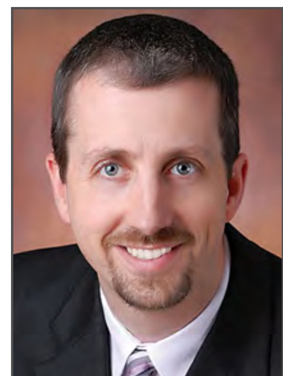
Financial writer, Anya Kamenetz, says, "These attributes arise out of other personal qualities, skills, mindsets and habits for success like drive, grit and workplace engagement."

What does it mean to be on track to meet your financial goals?

For one thing, it means that you have financial goals in the first place. And, experts say, they need to be specific and achievable. Automating your savings helps you make steady progress toward your goal.

And, says Kamenetz, "Happiness should be one of your priorities. We're not living just to make money. We are making money to live."





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Did you know that debit card rewards are making a comeback? They became rare because of a 2011 rule capping the fee that large banks could charge merchants whose customers used debit cards. But the percentage of issuers offering debit card rewards rose from 32% in 2013 to 47% in 2014 as issuers sought to attract more users.
Source: Kiplinger's Personal Finance

Beware of linking bank accounts to apps. Some apps help with budgeting, tax preparation and other financial matters. But giving an app your user ID and password for a bank account could make you responsible if the app gets hacked and your money is stolen. Many banks state in their online user agreements that they are not liable if you lose money because you gave your access credentials to third parties. Your actual loss may be capped at $50 or $500, depending on circumstances, under federal banking regulations. But it may take much time and effort to get even a partial refund from your bank. *Self-defense:* Don't give out your banking credentials anywhere beyond the bank itself.
Source: Credit.com

"In charity there is no excess."
— Sir Francis Bacon (1561-1626)

Are Greedy Kids Raiding Your Retirement?

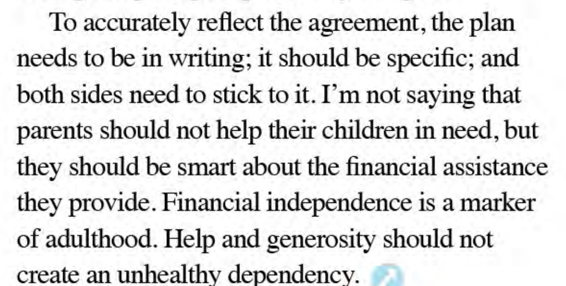
By Jill Schlesinger, Tribune Content Agency

"Greedy adult children have become rapacious consumers of their parents' money!" Those are the stinging words of financial planner, author and speaker Jonathan Pond, who worries that millions of baby boomer parents have indulged their children at their own expense. Of course he was not talking about your kids—your kids are perfect little angels!

Take the case of Joan, a 55-year-old widow, whose 31-year old daughter Mindy went through a nasty divorce and lost her job in 2012. Joan was more than willing to have her daughter move in, and she even helped out with some expenses. But three years later, her daughter is creating difficult financial choices for Joan. While Joan would like to concentrate on retirement, she is worried that Mindy will not be able to make it on her own. "I was trying to retire by age 65, but that's probably not going to happen now," she says. "It's hard for me to draw the line with my daughter." Unfortunately, Mindy has gotten a little too used to this "temporary" situation and is not clamoring to become financially independent any time soon.

To get an adult child off of a parent's gravy train requires tough and often emotional conversations. Ideally, Joan would have had "the talk" before Mindy moved in, but that never happened. Now it is important for Joan to discuss her needs and expectations going forward. Maybe something like this: "It's been three years since you moved in, and I was happy to help you out during this major transition in your life. But I think that you are more than capable of taking control of your financial life, and I want to help you develop a plan to get there."

As Joan works on the plan with Mindy, she will likely have to ease her into full independence. That might mean that if the goal is to have her move out in six months (she must choose a concrete date), she will have to develop a budget, which winds down the payment of expenses over time. Joan should reiterate that she will help guide Mindy through the process but will not finance it. While she's having these difficult conversations, Joan should also define when it's appropriate to ask for help in the future (a medical crisis or a job loss), but it must be an emergency; otherwise, she risks getting caught up in the cycle again.

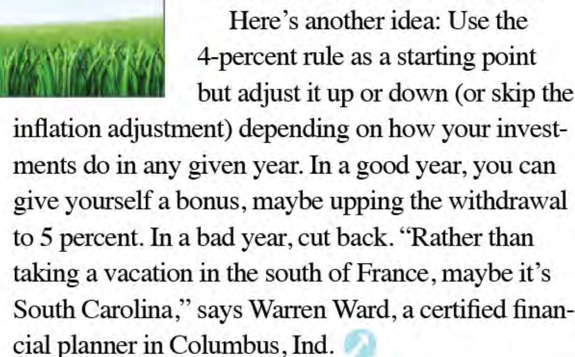


To accurately reflect the agreement, the plan needs to be in writing; it should be specific; and both sides need to stick to it. I'm not saying that parents should not help their children in need, but they should be smart about the financial assistance they provide. Financial independence is a marker of adulthood. Help and generosity should not create an unhealthy dependency.

Set Your Spending Rate In Retirement

By Jane Bennett Clark, Kiplinger's Personal Finance

When you're five years away from retirement, it's time to calculate how much you'll need to live comfortably and how much you can withdraw from your accounts without running out of money. On the savings side, one formula is to multiply your last year of preretirement expenses, minus Social Security and any pensions and annuities, by 25. When it's time to start withdrawals, the standard rule says you can safely take 4 percent of your savings the first year and the same amount each year thereafter, adjusted for inflation.



One problem: Those formulas rely on historical market returns and don't reflect future returns, which are likely to be lower. To avoid lowering your living standard and to keep from running out of money, a recent study suggested you'd have to save 33 times preretirement expenses (rather than 25) and drop your initial withdrawal rate to 3 percent or less.

For most people, upping the savings goal dramatically a few years away from retirement probably isn't realistic, says Srinivas Reddy, senior vice president and head of full-service investments for Prudential Retirement. You can, however, postpone retirement or work part-time after you leave your career job. Working longer "is a wonderful tool," he says, because it helps you save more and shortens the length of time you'll be withdrawing from savings. You can also postpone taking Social Security benefits. For every year you delay after age 62, benefits increase by about 8 percent until age 70. And anyone 50 or older can make catch-up contributions to retirement accounts.

One way to avoid running out of money is to take a percentage—say, 4 percent—from your portfolio each year and forgo the inflation adjustment altogether. Another is to calculate your withdrawals according to the actuarial tables the IRS uses for required minimum distributions, which you have to take anyway from tax-deferred accounts starting at age 70 1/2. Both strategies depend on your investment performance, and they trade flexibility for safety. Plus, the RMD strategy may be overly conservative because it uses a life-expectancy table much longer than that used by Social Security.

Here's another idea: Use the 4-percent rule as a starting point but adjust it up or down (or skip the inflation adjustment) depending on how your investments do in any given year. In a good year, you can give yourself a bonus, maybe upping the withdrawal to 5 percent. In a bad year, cut back. "Rather than taking a vacation in the south of France, maybe it's South Carolina," says Warren Ward, a certified financial planner in Columbus, Ind.

"Many people like to start a new hobby when they retire. Hunting and gathering might be a good choice for you."

Are you contributing enough to your retirement plan? Automatic enrollment in retirement plans is becoming more common—yielding higher plan-participation rates but often resulting in minimal contribution levels. Vanguard, a major administrator of plans, says 60% of new plan entrants were automatically enrolled last year, and total participation among all employees rose to 75% in 2014 from 67% in 2005. But more than 60% of Vanguard plans that automatically enroll employees set the employee's contribution at 3% or less—far too little to help employees ensure a secure retirement. Vanguard recommends a target savings rate of 12% to 15%, including any employer match.
Source: The Wall Street Journal

Best way to send flowers: You will pay less and get a better bouquet if you order directly from a local florist near the recipient's home or office. According to a recent J.D. Power survey, one in five customers of the major online flower-delivery services reported a problem.
Source: Kiplinger.com

"I have enough money to last me the rest of my life, unless I buy something."
— Jackie Mason

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Ask Kim: Can I Undo A Roth IRA Conversion?

By Kimberly Lankford, Kiplinger's Personal Finance

Q: *I converted money from my traditional IRA to a Roth 10 months ago, but my investments are now worth less than they were when I converted. Is it too late to undo the conversion and get back the money I paid in taxes?*

A: No, it's not too late. And it might be a good time to consider undoing a Roth conversion, given that the value of your investments has dropped since then.

You have until October 15, 2016, to undo a Roth conversion made in 2015. After you move the money from the Roth back into a traditional IRA (a process called recharacterization), you can file an amended return on Form 1040X (www.irs.gov/pub/irs-pdf/f1040x.pdf) and get back the money you paid in taxes on the conversion. If you then decide you want to reconvert any or all of the money to a Roth, you'll need to wait at least 30 days after the recharacterization to do so. Your tax bill on the reconversion will then be based on the lower value.

But before you reconvert to a Roth, consider other factors that could affect the tax bill on the conversion. You may not want to do it if your income (and tax bracket) is higher this year than it was last year, even if your investments have decreased in value since then. Also be careful if you're older than 65 and the extra income from the conversion could make you subject to the Medicare high-income surcharge, which would be the case if your adjusted gross income for the year is greater than $85,000 if you're single or $170,000 if you're married filing jointly.

To undo a Roth conversion, contact the IRA administrator and ask to recharacterize the Roth back to a traditional IRA. The administrator must make a direct transfer from the Roth to the traditional IRA, without sending the money to you.