ASTORIA
STRATEGIC WEALTH

Financial Tips for Newlyweds

As you join together in marriage, we respectfully submit the following to help you start off on the right financial foundation:

1. **Establish an Emergency Fund**

   The fund should be large enough to serve as your “buffer account,” enabling you to avoid carrying high cost debt on your credit cards. Use the emergency fund when necessary to pay off a balance beyond your planned, regular cash flow items which will allow you to avoid paying usurious interest rates. Then, focus your saving efforts to replenish your emergency fund ASAP. How large should your emergency fund be? Minimally, it should be adequate to pay off your monthly expenses for the period of time it would take to find a new job – this tends to be the largest, unplanned expense for most. A money market fund with check writing is a great place to store your emergency fund. We’ve also found it helpful to keep this account separate from your other accounts to help you recognize that dipping into it should be a conscious act – not a matter of routine. Note: Regularly tapping your emergency fund is a red flag that your cash flow plan needs adjusting – see #2 below.

2. **Develop a Cash Flow Plan**

Some call this a “budget,” but “budget” can have a negative connotation for some. Whichever you prefer, it’s vital to develop one and implement a means for monitoring it! A cash flow plan is simply what you bring in less what you save and spend. Be sure to include the “cost” of your long-term goals in the savings section of your budget. You may periodically deviate from it, but there is no need to “toss the baby out with the bathwater” when you stray. Think of it as a map; when you get off your intended route, work to get back on the right path as quickly as you can. Be mindful of impulse purchasing; every time you reach into your pocket or purse, you’re making a financial decision; and, if it is an unplanned purchase, you are consequently saying that it is more important than your established goals. You may consider resources such as Quicken (www.quicken.com) or Mint (www.mint.com) so you may download balances and transactions directly from your financial institutions.

3. **Avoid Consumer Debt - Live Below Your Means**

According to a 2013 study of American families by the Federal Reserve, the percentage of families that carry a credit card balance has dropped from 46% in 2007 to 38% in 2013 - a trend we hope that continues. We advise all newlyweds to pay off credit cards as quickly as possible. Credit issuers will try to tell you how much you can afford - decide for yourself what you are comfortable with; this approach will likely produce more restful nights and more of your money to put towards your goals.

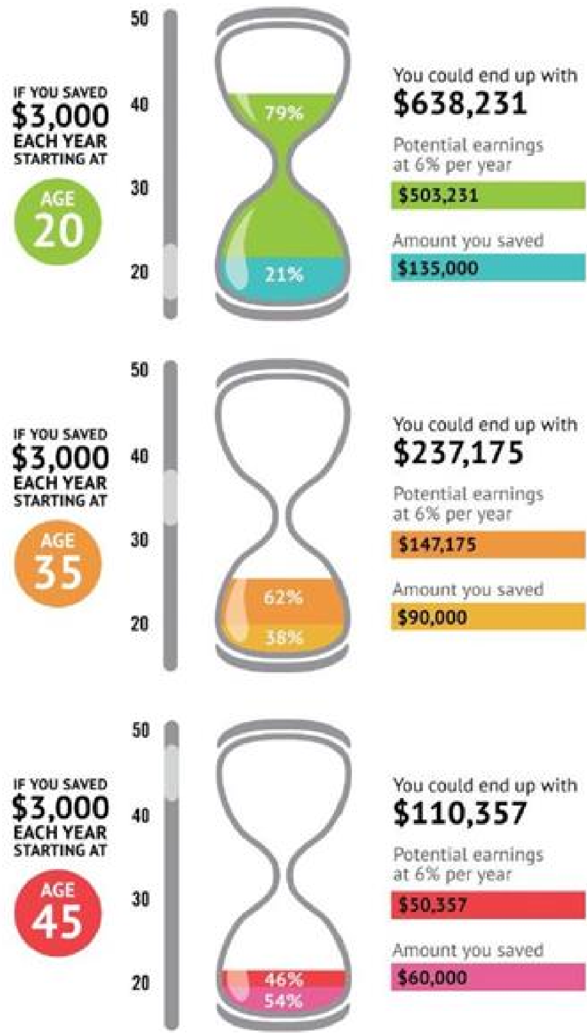
4. **Pay Yourself First (PYF)**

Along the same lines, we recommend setting up automatic deposits out of your paycheck to a Roth or Traditional IRA (which IRA will depend on the size of your paycheck/income and whether you believe taxes are going up or down in the future), a 401(k), and, if your cash flow plan allows, a savings account. This automatic investment method will help you resist the temptation of spending the “easy access” dollars in your checking account. Recurring savings puts time and compounding interest on your side. And, it is the only savings approach we’ve seen that actually works. If you wait to see what’s left over to put into savings, you will likely never achieve higher priority goals beyond the current month’s spending – not a great way to live out your ‘golden’ years!

5. **Save Early...and Often**

Saving aggressively early can mean having to save less later (when you can least afford it). Given that you are likely to work 30+ years and in those years you have to create enough wealth to support you during your last 30+ years, starting early is key to take advantage of the ‘miracle of compounding.’ If you start

saving 15% of all income sources when you are in your twenties, you will likely be on the path to creating the requisite retirement portfolio. For each decade you wait, add 10%. So, if you haven't started saving by the time you are 41, you'd need to save 35% of your income – at a time, when you will have the expense of high school/college kids and all the associated costs of cars/school/extras. We have yet to see anyone be able to save that much at that age.



To take that one step further, a recent article in Business Insider calculated how much you'd have to invest each day in order to become a millionaire. Suppose your investments earn an average 7% yearly return and you want to have $1 million by the age of 65. ***At age 20, you'd have to invest just $9 a day to achieve your goal – which really makes you rethink the cost of a cappuccino grande and a bagel at Starbucks every morning which is typically over $10.*** If you start at age 25, then $12 a day would do the

trick. At age 30, your required daily investment goes up to $18 and it stays manageable even at age 35 at $27 a day.

6. **Don't be Fooled - Looks Can Be Deceiving**

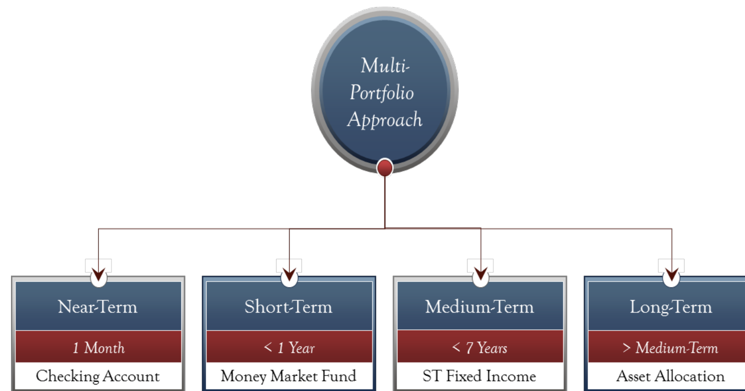
Don't confuse easy access to credit with real wealth. New cars, big houses, and exotic vacations may just be a sign of high debt. Real wealth is usually a result of responsible spending, responsible saving, and trading glamour for modesty and security. Beware of the shiny objects...they are an insatiable habit. You may consider reading The Millionaire Next Door. It is a thoughtful book which helps you develop habits to creating meaningful wealth.

7. Monitor Your Credit Score

In addition to potential lenders, insurance companies and others use your credit rating and credit score to make decisions about accepting you as a customer and what rate/fee/terms they charge you. Monitoring your credit rating/score is an important means of protecting yourself from credit fraud and ensuring you're not paying unnecessarily high rates due to incorrect information. One free resource to check your free credit report and score is https://www.creditkarma.com/. The government also requires the three major credit agencies to provide you a free report annually and any time you're denied credit. You may find this at https://www.annualcreditreport.com/ .

8. **Set SMART Goals: S*pecific*, M*easurable*, A*ttainable*, R*elevant*, T*ime-Bound***

Most people seem to negotiate life with financial goals that are broad without setting short-term objectives that are more specific and manageable. We realize this bullet point is self-serving as it is one of the primary value-added services of a financial advisor, but setting more detailed goals such as a determining not just that you want to buy a house, but figuring out the size of down payment and manageable mortgage, will translate into clearer goals. Meeting these interim goals in the short to medium-term will help you stay accountable to your long-term intentions. We recommend you put your money in "buckets". Money you need this month should be in your checking account. Funds you need within year should be in a money market account. Money you'll need in the next one to seven years should be in a short-term fixed income investment (CD, short-term bond fund, etc). And, the funds you'll need for the long-term should be in a well-diversified, low-cost, tax-efficient portfolio.



9. **Educate Yourself and Beware of Popular Money Management Resources**

"Good credit, bad credit, no problem!" What's in your wallet?" Looking to pop culture and the latest "guarantee" that seems too good to be true is a risky path. Instead, consider relying on respected media sources to educate yourself such as www.Kiplinger.com.

10. **Avoid Costly Life Insurance Purchases; Consider Higher Deductibles on Other Insurance**

Sure, your monthly life insurance premiums will be lower when you're younger, but if you don't have an insurance need, then why buy it? There are very few instances where you need anything other than (less costly) term insurance. Beware of those trying to sell you permanent insurance – whole life, universal life, variable life, and variable universal life – without getting objective advice. The first question in purchasing life insurance is, "what is the need?" not "how much can you buy?" On taking a higher deductible on other insurance such as home and auto: if you have established an emergency fund (see Bullet #1), you can use it to pay the deductible if a loss occurs. Over time, odds will work in your favor and you will save money on premiums.

11. Ensure Proper Titling of Accounts and Beneficiary Designations.

As you join finances and open joint accounts, it's important to ensure you title your accounts to suit your goals. Texas is a community property state and we may talk you through the options of Joint With Rights of Survivorship (JTWROS) versus Tenants in Common (TIC). As you open 401(k) and IRA accounts, it is required you name a beneficiary. This is a basic first step in your overall estate plan. As you get some of your other goals and investments in place, it's important to prepare your basic estate planning documents such as a will, durable power of attorney, health care power of attorney and living will. As children come

along, it's critical to have a will to appoint guardianship to avoid the courts taking that role. We also encourage you to write a Letter of Instructions and an Ethical Will (www.ethicalwill.com).

12. **Monitor Social Security Statements**

    As you evolve in your career, you may either set up an account on the Social Security Administration (SSA) website at http://www.ssa.gov/mystatatement/ or verify the information on your paper statements as they are mailed out to you. The SSA will mail you a statement of your estimated benefits every five years beginning at age 25. The website is also very user-friendly and a good way to monitor your information over time. This benefit information will become increasingly important as you grow closer to retirement.

13. **Consider What Roles You Will Assume For Your Family (CFO, CIO)**

    A clear division of responsibilities with consistent communication along the way will likely help you avoid pitfalls such as missing bills, missing a tax payment, or not taking advantage of a retirement plan and/or IRA opportunity. Who is best suited to be your family's CFO (Chief Financial Officer) – paying bills and establishing/maintaining a budget? Who is better at day-to-day diligence? Who is better suited to be the CIO (Chief Investment Officer), making sure each of you are investing for your future, and over the long haul and in accordance with your goals? Communicating on major money moves in advance of them is advisable. Decide whether you will engage a tax advisor and/or a financial advisor. Be prepared to compromise on major purchases – one of you may like new cars, and the other of you may understand all too dearly that the moment you drive a new car off the lot, the vehicle has lost 20-30% of its value.

14. **Giving Back Tax Efficiently**

    For those planning to give back to their communities or church organizations down the road, note that there are ways to mitigate taxes and optimize your philanthropic goals through donating appreciated securities (or other assets if accepted), and when the time is right, potentially setting up a donor advised fund. As an example, if you wish to give your church $200 and you own a security that has appreciated from $100 to $200, instead of selling the security and paying taxes on that gain, you can give the security directly to a 501 (c) 3 organization (in this case the church). Since they don't pay taxes, they receive the full $200 benefit and you still get the full charitable deduction for having given $200 worth of a security.