Volume 33 • Number 4

Financial Planning Strategies

A Financial Planning Update

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Employer-Sponsored Plans: Helping Americans Prepare for Retirement

People who save through employer-sponsored plans are more likely to feel prepared for retirement than those who do not, according to the results of the 23rd annual EBRI Retirement Confidence survey in 2013 sponsored by the Employee Benefit Research Institute (EBRI) and Mathew Greenwald & Associates.

Approximately 1,250 U.S. workers and retirees, were asked about their attitudes regarding retirement, their preparations for retirement, their confidence regarding various aspects of retirement, and related issues. The study of Americans' confidence in their ability to retire comfortably revealed that only 13% of respondents say they are very confident they will have enough money to live comfortably in retirement, 38% are somewhat confident, 21% are not too confident, and 28% are not at all confident.

When asked to identify top financial concerns, 30% of workers cite job uncertainty and making ends meet (12%). Fifty-five percent consider their current level of debt to be a problem. Only 2% of workers and 4% of retirees cite

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Unpaid Student Loans May Result in Docked Social Security Checks

When an individual ceases making payments toward his or her student loan, the loan falls into default. The consequences of someone defaulting on a student loan can be severe and include damage to his or her credit report, the inability to build savings or apply for other loans, and wage garnishment. Recently, many retirees have discovered that defaulting on Federal student loans can result in their Social Security benefits being docked.

The Consequences

According to the Federal Reserve Bank of New York (March 2012), Americans owe $870 billion in student loans, which is significantly more than credit card debt or car loans. Americans age 60 and older owe roughly $36 billion of that total. More than 10% of those loans are delinquent. Federal student loans account for approximately 85% of all student-loan

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debt; private student loans make up the rest. However, private lenders can garnish wages only—they do not have the authority to dock Social Security benefits.

The Federal government is withholding a portion of Social Security benefits from recipients who have fallen behind on their Federal student loans. According to the Treasury Department (August 2012), while there were only 6 such cases in 2000, by 2007 there were 60,000 cases, and in the first seven months of 2012 alone, approximately 115,000 individuals had their Social Security checks docked due to unpaid Federal student loans.

Although the amount of money the government withholds from Social Security varies, it can be as much as 15%. Supposing an individual receives a monthly Social Security benefit of $1,000, he or she could have as much as $180 docked from each check, which can be significant for retirees who are living on a fixed budget.

While some retirees may still be carrying debt from the student loans they took out in their youth, others relied on Federal loans when they returned to college or went to graduate school for a mid-life career change. In many instances, the debt retirees are now carrying was not for their own education, but to help their children, grandchildren, or other dependents fund an education.

Loan Balance Collection

The Department of Education provides Federal student loans to students and provides payment plans to accommodate borrowers who fall behind. It would take nearly two years of non-payment before an account is sent to a collection agency. If the collection agency fails to collect the money, the loan balance is transferred to the Treasury Department, which has the power to garnish Social Security checks. The Treasury Department generally sets up payment plans with borrowers on two separate occasions before dipping into their Social Security checks. However, the Treasury does not withhold money from monthly Social Security checks totaling $750 or less.

The Aftermath

A variety of extenuating circumstances can lead to student loan default, such as an uncertain economic climate coupled with the rising cost of college tuition. As a result, students in all age groups are incurring more debt than previous generations. Nontraditional students, along with their college-enrolled dependents, may equally have trouble finding jobs after graduation.

If you are considering student loans for yourself or a family member, think carefully before you sign on the dotted line. Remember, unlike other types of debt, student loans cannot be discharged by declaring bankruptcy. It can quickly become a burden for even the most financially responsible Americans, and you could be paying student loan debt down well into your retirement years. $

A Budget May Help Boost Your Savings

Whether you have substantial resources or live close to your means, a budget may be an effective foundation for a savings program. It can help you monitor your personal and household expenditures, potentially freeing up income that can be redirected toward savings. Consider the following:

1. A budget can help you analyze your actual expenses. Seeing a breakdown on paper often reveals inefficient or wasteful spending.
2. Once you know where your money is going, a budget may help you conserve financial resources or spend them more wisely.
3. A budget can create awareness of spending habits, which may allow you to prevent financial difficulties in the future.
4. A budget can help you see alternative courses of action for achieving your financial goals.
5. A budget can motivate you to adhere to a savings plan.

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retirement saving or planning as their most pressing financial issue.

The survey revealed that many American households have virtually no savings and investments, with 57% reporting that the total value of their household savings and investments, excluding the value of their primary home and any defined benefit plans, is less than $25,000; and 28% have less than $1,000 in savings. However, of those workers with access to an employer-sponsored retirement savings plan, such as a 401(k), 82% who are eligible to contribute are currently doing so.

One-quarter (25%) of workers polled say the age at which they expect to retire has changed in the past year, with 36% expecting to retire after age 65, compared with just 11% of respondents in the 1991 survey. The findings also indicated that confidence among workers in having enough savings to pay for medical and long-term care expenses in retirement remains well below their confidence levels for paying basic expenses: 25% of workers and 28% of retirees are very confident about having enough money to pay for basic expenses. However, 14% of workers and 24% of retirees are very confident about paying for medical expenses after retirement, while only 11% of workers and 16% of retirees report being very confident about having the necessary means to cover the cost of long-term care expenses in retirement.

Although 57% of workers surveyed expect to receive retirement benefits from a defined benefit plan, only 32% report that they and/or their spouse currently have a traditional pension plan with a current or previous employer. Further, less than half (46%) report that they and/or their spouse have tried to calculate how much money they will need to save to live comfortably in retirement. Two-thirds (66%) say they and/or their spouses have saved for retirement, a continuing decline from the three-quarters (75%) measured in 2009. Some 57% say they and/or their spouse are currently saving, down from 65% in 2009. Researchers noted, however, that these decreases are concentrated primarily among workers with household incomes under $35,000.

Meanwhile, 47% of the current retirees surveyed say they left the workforce unexpectedly due to health problems, disability, or changes at their employer, such as downsizing or company closure. Retired respondents expressed higher levels of confidence than current workers about several key financial aspects of retirement, and that they are significantly more reliant on Social Security as a major source of their retirement income than current workers expect to be.

Remember, it's never too late to start saving for your retirement, whether through contributions to a workplace-sponsored plan, such as a 401(k), a traditional IRA, and/or personal savings. Reviewing your retirement planning strategy regularly with a qualified financial professional is another important component for staying on track to reach your future goals. $

A Budget May Help Boost Your Savings

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6. A budget can allow you to evaluate and monitor your progress toward short-term and long-term financial goals.

Whether you nurture dreams of a higher education, an early retirement, or a special family vacation, a budget may help to boost your savings. $

The Changing Face of America: Dual Income Families

The concept of the "traditional" American family is continually changing. The dual income family, with spouses each maintaining separate careers and contributing to the financial success of the household, has become commonplace.

To keep up with the high cost of living and rate of inflation, two incomes are often required to meet overall family expenses. Many people are asking themselves, "How will we save for our retirement, pay for our children's education, and help our aging parents handle some of their financial burdens?"

The Cost of Working

Although it may seem as if dual income families have more disposable income to pay for life's necessities, appearances can be misleading. Families with both spouses working often lose *some* portion of the second paycheck to extra expenses, such as unreimbursed childcare, domestic help, job-related transportation, dry cleaning, and take-out meals. These additional expenses add up and can eat away at that second income.

Childcare concerns are especially critical when both parents work outside the home. Quality childcare is a major expense for many families with working parents—after housing, food, and taxes. It is this cost that often reduces the income that could be used to help fund education or retirement.

As companies continue to restructure their business environments in a challenging economic climate, some dual income families may face the possibility of living on a single or reduced income for an unspecified period of time. For those who need the additional income to help pay for basic expenses, a loss or reduction of one income could have a serious impact on the family finances.

Protecting Your Family's Future

Have you thought about how *your* family would protect its income if either working parent should die or sustain a disability? One strategy may be to purchase a permanent **life insurance** policy that will pay a benefit upon the death of the insured spouse. There are several advantages to life insurance plans. For example, policies bought at a younger age may have lower costs, build cash value, and maintain level premiums.

Generally, the cost for life insurance policies is lower when purchased relatively early in life. However, it is important to re-evaluate insurance coverage as your circumstances change. The protection that life insurance policies provide for dual income families can best be calculated by periodically analyzing *all* life insurance needs to determine the best plan for your family.

Now, what about loss of family income due to *disability*? This possibility is not as unlikely as you might think. According to the Insurance Information Institute (III, 2013), 43% of all people age 40 will experience a long-term disability (lasting 90 days or more) by age 65. A debilitating illness or injury that eliminates or reduces your family's primary source of income can be challenging. So, you may want to consider purchasing ***individual* disability income insurance**, which could help replace a portion of lost income in the event the insured spouse sustains a qualifying disability.

Dual income families have become a fixture in today's society. Although individuals may have different reasons for working, most families come to depend upon that second income, whether it is used to meet current or future needs. Therefore, it is important to consider the dual protection that life and disability income insurance policies on both spouses can provide. Be sure to consult a qualified professional about your unique situation. $