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Financial Planning Strategies

A Financial Planning Update

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Understanding Interest Rates and Your Financial Situation

When discussing bank accounts, investments, loans, and mortgages, it is important to understand the concept of interest rates. Interest is the price you pay for the temporary use of someone else's funds; an interest rate is the percentage of a borrowed amount that is attributable to interest. Whether you are a lender, a borrower, or both, carefully consider how interest rates may affect your financial decisions.

The Purpose of Interest

Although borrowing money can help you accomplish a variety of financial goals, the cost of borrowing is interest. When you take out a loan, you receive a lump sum of money up front and are obligated to pay it back over time, generally with interest. Due to the interest charges, you end up owing more than you actually borrowed. The trade-off, however, is that you receive the funds you need to achieve your goal, such as buying a house, obtaining a college education, or starting a business. Given the extra cost of interest, which can add up significantly over time, be sure that any debt you assume is affordable and worth the expense over the long term.

To a lender, interest represents compensation for the service and risk of lending money. In addition to giving up the opportunity to spend the money right away, a lender assumes certain risks. One obvious risk is that the borrower will not pay back the loan in a timely manner, if ever. Inflation creates another risk. Typically, prices tend to rise over time; therefore, goods and services will likely cost more by the time a lender is paid back. In effect, the future spending power of the money borrowed is reduced by inflation because more dollars are needed to purchase the same amount of goods and services. Interest paid on a loan helps to cushion the effects of inflation for the lender.

Supply and Demand

Interest rates often fluctuate, according to the supply and demand of credit, which is the money available to be loaned and borrowed. In general, one person's financial habits, such as carrying a loan or saving money in fixed-interest accounts, will not affect the amount of credit available to borrowers enough to change interest rates. However, an overall trend in consumer banking, investing, and debt can have an effect on interest rates. Businesses, governments, and foreign entities also impact the supply and demand of credit according to their lending and borrowing patterns.

(continued on page two)

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(continued from page one)

An increase in the supply of credit, often associated with a decrease in demand for credit, tends to lower interest rates. Conversely, a decrease in supply of credit, often coupled with an increase in demand for it, tends to raise interest rates.

The Role of the Fed

As a part of the U.S. government's monetary policy, the Federal Reserve Board (the Fed) manipulates interest rates in an effort to control money and credit conditions in the economy. Consequently, lenders and borrowers can look to the Fed for an indication of how interest rates may change in the future.

In order to influence the economy, the Fed buys or sells previously issued government securities, which affects the Federal funds rate. This is the interest rate that institutions charge each other for very short-term loans, as well as the interest rate banks use for commercial lending. For example, when the Fed sells securities, money from banks is used for these transactions; this lowers the amount available for lending, which raises interest rates. By contrast, when the Fed buys government securities, banks are left with more money than is needed for lending; this increase in the supply of credit, in turn, lowers interest rates.

Lower interest rates tend to make it easier for individuals to borrow. Since less money is spent on interest, more funds may be available to spend on other goods and services. Higher interest rates are often an incentive for individuals to save and invest, in order to take advantage of the greater amount of interest to be earned. As a lender or borrower, it is important to understand how changing interest rates may affect your saving or borrowing habits. This knowledge can help with your decision-making as you pursue your financial objectives. $

Making the Home Sales Process Go Smoothly

When you think about your retirement years, do you imagine living in a new home or community? Whatever your choice of retirement haven, you may wish to sell your current home. To facilitate the sales process, consider the following points:

1. If you have already begun looking for a new home, place your existing home on the market as soon as possible to help minimize the chances of simultaneously owning two homes—along with their associated costs.
2. If you have decided to work with a real estate agent, ask friends for recommendations. Negotiate the commission *prior* to listing, and then sign for a limited period (such as three to six months). At that point, you may decide to switch agents.
3. Establish a fair asking price so your property doesn't sit on the market. For reference, obtain the recent selling prices of three properties in your area that are comparable to your own.
4. Hire an attorney with experience in real estate sales. Your attorney can help protect your interests from the time a contract is signed until you receive the purchase check.
5. Consult with your tax professional. Selling a home can impact your Federal and state tax returns. In general,you can exclude up to $250,000 in real estate gains ($500,000 for married couples filing jointly) on property that was your principal residence for at least two years.

Many retirees choose to sell their homes. Following these tips can help make the home sales process go as smoothly as possible for you. $

Countdown to Retirement Strategies for Saving in Your 50s

The Baby Boom generation is about to enter another era: retirement. Never known for accepting the status quo, Baby Boomers are ready to redefine the "golden years." Forget about endless days of leisure. This generation seeks adventure, travel, and new business pursuits. While these changes may redefine retirement, will Boomers be able to finance their plans? Today, many people age 50 and older have not begun to save for retirement or have yet to accumulate sufficient funds.

If you're in this age group and find yourself facing an underfunded retirement, it's not too late to take charge. There are actions you can take today to get on the right track. Here are some ideas:

What's it going to take? First, estimate how much money you will need in retirement. Once you have an idea of the amount, you can work toward meeting that goal. A good rule of thumb is that you may need 60%–80% of your current annual income in retirement. Your financial professional can help you assess the best amount for your situation.

Maximize your contributions. If your employer offers a retirement plan, contribute as much as the law will allow. In 2016, those age 50 and over can contribute up to $24,000 to an employer-sponsored 401(k) plan ($18,000 + $6,000 "catch-up" contribution). Many employers also offer a company match, so be sure you contribute enough to claim this "free" money, which can add up over time.

Create a spending plan. In other words, make a budget. Many people think a budget is restrictive, but look at it this way: You can spend now, or you can have the money to afford your dream adventures later. To start, it is important that you pay down debt and avoid accruing new debt. Next, examine your spending habits and replace some of your discretionary spending with saving. Saving even $20 more per week is a step in the right direction.

Take initiative. Besides contributing to your employer's plan, you can save more by opening your own Roth IRA. Contributions are made after taxes, but earnings and distributions are income-tax free, provided the account is at least five years old and you have reached age 59½. Those age 50 and over can contribute up to $6,500 a year in 2016. Eligibility in 2016 for these plans begins to phase out with adjusted gross incomes of $117,000–$132,000 for single filers and $184,000–$194,000 for married joint filers.

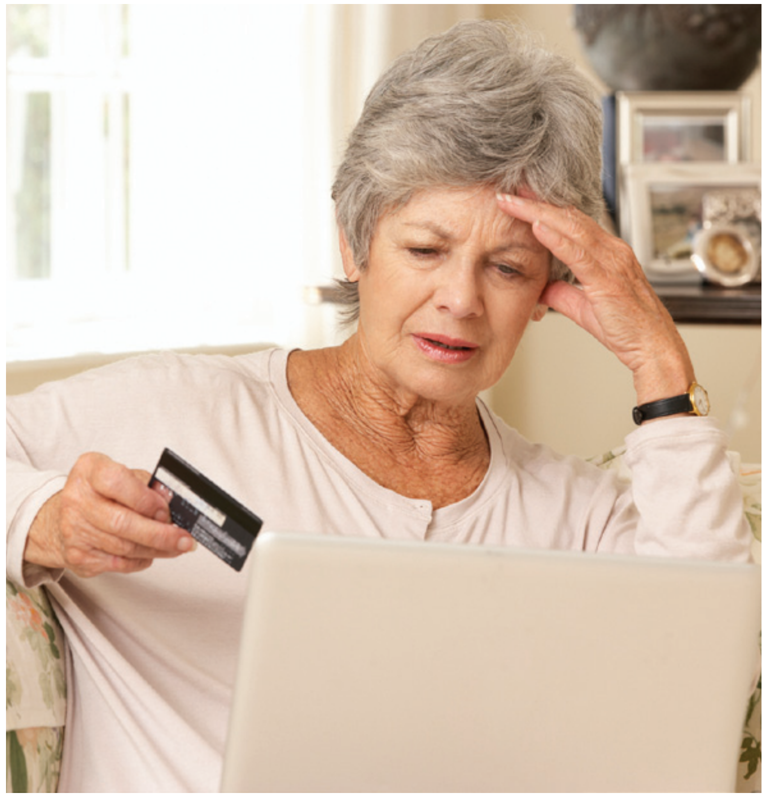
Hang out your shingle. Many Boomers hope to start their own businesses in retirement. Why wait? If you begin your entrepreneurial efforts now, your business has the potential to be in full swing by the time you retire, and any profits between now and then can be added to your savings.

Consider downsizing. Your home may have significantly increased in value since you first bought it, and you may have already paid off the mortgage. With children at or near adulthood, do you really need all that space? Selling now and moving to a smaller, more affordable location may allow you to transfer some of the equity in your home into a savings vehicle.

Reconsider your retirement age. If you want to cushion your retirement savings, consider staying on the job longer. Some people actually leave retirement to reenter the workforce because they feel more fulfilled while working. Others seek part-time work, consulting, or entrepreneurial endeavors. Such options may enable you to earn more money to save, which may help to postpone spending down your savings.

Regardless of which options you choose, you can benefit from time and compounding interest. Every year that your savings remain untouched allows more time for growth. It is never too late to start preparing for your future. So, take action *now* to get on track to saving for your retirement. $

Credit Card Debt after the Death of a Loved One



After a loved one dies, who is responsible for his or her remaining credit card debt? This is a question you are unlikely to be thinking about in the days and weeks after the death, but it is one you will ultimately need to face.

In many cases, family members are not responsible for the debt, but there are a few exceptions. Luckily, while you and other family members sort out the financial impact of the death, you are protected by the Federal Fair Debt Collection Practices Act (FDCPA), which prevents debt collectors from using abusive or deceptive practices to collect a debt. According to the FDCPA, a debt collector might be a collection agency, a lawyer who regularly collects debts, or a company that buys debts and later attempts to collect payment.

When a spouse or other individual is a joint owner of a credit card account, that person is obligated to pay the debt after the death of the other co-owner. Most often, the co-owner is a spouse, but adult children will sometimes become authorized to use a parent's credit card account, to help the aging parent with financial matters. They then become liable for unpaid credit debt after the death of the parent.

If the widowed spouse lives in a "community property" state, such as California and a handful of other states, he or she may be liable for the credit card debt, even if the account was not co-owned. In such states, debts incurred after the marriage may qualify as community property, which means that, regardless of the credit card agreement, the surviving spouse is responsible for the debt. Also, some states may require that particular kinds of debt, such as debts related to health care, be paid by the spouse. Particularly given the differing state laws, it's a good idea to speak to an attorney to better understand your obligation.

When a relative or other person is not responsible for the uncollected debt, the responsibility falls to the deceased person's estate. The executor of the estate (or an administrator appointed by the court if there is no executor) is responsible for using the estate assets to pay the debt. If the assets do not cover all or any of the debt, the debt is wiped out. This means that the deceased person's heirs will not inherit the debt. $