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Wealth Strategies Group | Canandaigua National Bank & Trust

VESTED INTEREST

NEWSLETTER OF THE WEALTH STRATEGIES GROUP

NextGen Financial Roadmap

There is a shift in the American Dream among the younger generations (Gen X & Millennials). The previous notions of finding a company job out of college or high school, working there 40 years, buying a home with a 2 car garage and white picket fence, then retiring at 60 with a nice pension and a gold watch are not common realities today. Even with a change in lifestyle goals, there are some sound financial points to consider to ensure a strong financial footing.

Ever-changing Corporate Landscape

Just look at the past few decades in Rochester and we see Kodak bankruptcy, Bausch & Lomb buyout, and a possible divesture at Xerox. Perhaps the biggest issue I hear about is the uncertainty around employment. Today it is very common for the next generation to work several part-time jobs or be a freelancer. This new work schedule creates a variability around hours and income; therefore, it is advisable to first focus on building and maintaining a reserve fund of cash.

Preparing for the Unexpected

Building the cash reserve allows for a "relief valve" when the car breaks down and hours get trimmed one month, or perhaps you have higher than normal medical visits and you are on a high-deductible plan. As a guideline we recommend you save 3-6 months of expenses, which is a lot, but will ensure you can weather some uncertainties.

Start by carving out money each month into a savings account, or separate savings account, so it isn't comingled with the day-to-day monies. It may take a year or two to build the reserve, but it is essential to build up and continue to maintain as withdrawals are taken for emergency needs.

Making Retirement a Reality

Retirement is also something that everyone wants to believe they will make happen someday, but it won't happen unless you can save for it. It is unlikely a pension from a company will be available, and Social Security will not cover all retirement expenses. It's prudent to save at least 3-5% of your income to place into a retirement account today to start, no arguments. Guidance from a CERTIFIED FINANCIAL PLANNER™ (CFP®) can help you decide which retirement vehicle to use since there are a lot of choices.

Each year thereafter, increase the percentage you are saving until you are maxing out your allowable contributions. It may take 20 years to max out your contributions, but it will be worth the hard work when you get to retirement age and realize you can actually retire. I have yet to meet a retiree who said, "I really wish I had less money saved for retirement."

Affording a Home

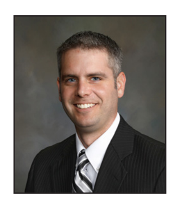
Once the cash reserve and retirement savings are handled, hopefully there is a little left over to start considering other big purchases like a house. Buying a house isn't for everyone, but given today's interest rates and high rental rates it makes a lot of financial sense. If you are fairly confident that you will be located in one area for 10 years or longer, buying a house would be a cost effective housing solution.

Eliminating Student Loans

I don't think a discussion about the next generation can be complete without something on student loans. Unfortunately, there is no "magic bullet" with paying off student loans. Some options to consider would be to spread the payments out a number of years through a consolidation, while focusing on keeping the interest as low as possible. It's best to get the payments manageable and just keep chipping away until they are gone.

Starting the Conversation!

I hope these few points help start a conversation with your spouse, your parents, your friends, or your kids on steps to gaining a firm financial foundation. The framework for the next generation has changed and the advice we offer has changed slightly as well. However, every generation has a common goal to live comfortably, have some fun, retire someday, and leave the world better for the next generation.



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Helping Aging Parents the Right Way

As your parents age, they may turn to you for assistance. Whether they begin the conversation or you do, how can you help guide them in the right direction while respecting their autonomy?

Asking the right questions

In order to support your parents, you should consider having an upfront, open dialogue regarding their finances. Think about asking questions regarding where their assets are held, the breadth of their assets and what outstanding liabilities they have. If you act as a fiduciary in the event of incapacity or death, you should have a complete understanding of their current financial picture. For example, if life insurance is an important part of their planning, are you aware of the premium payments that need to be made? What accounts should you be monitoring? What bills need to be paid?

You should be aware of who your parents work with and know what advisors or attorney to contact in case of an emergency. Consider asking your parents to introduce you to their team to help foster a productive relationship for the future. As parents phase out their participation and yours increases, you may want to retain those who understand your parents' plans.

Having the right documents

You should have an idea of their plans for incapacity and their estate. Ask them if they have the legal documents necessary to effectuate those wishes such as a Will (or Revocable Trust), Power of Attorney and Health Care Proxy, and where those documents are located.

Generally, a Will directs where assets held in a parent's name go when they pass. The Will also nominates an Executor, who can be an individual or corporation, responsible for carrying out their directives. Any asset that has a beneficiary designation will be controlled by that designation, not the Will. A Power of Attorney is a document that dictates who can act for a parent, and what actions they can take.

To contrast, a Power of Attorney is used while a parent is living and the Will controls at death. A Health Care Proxy appoints an agent to make healthcare decisions. While it may be difficult, you may consider having a conversation regarding end of life choices.

Estate plans should be reviewed about every five years as the tax and fiduciary laws often change. If the documents are out of date or nonexistent, they should find a trust and estate attorney who understands the nuances of drafting the appropriate documents.

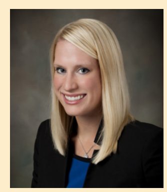
Making the right plans

There is no 'one size fits all' plan. Different approaches are used based on your parent's needs. For example, if there is a health concern, you may want to focus your energy on making sure they have a long term plan in place. If there is a concern about the cost of skilled nursing facilities, start the education process about Medicaid such as the look back period, income and resource limits, and what assets are exempt.

Or, there may be tax concerns to address. If parents hold appreciated assets with a low basis, you should be aware of capital gains taxation. Depending on the value of their assets, they may also wish to manage their exposure to estate tax through appropriate estate or gift planning. By understanding their assets and concerns, you can help guide them to choosing the right type of planning mechanisms.

Doing it right yourself

As you care for others, do not lose sight of your own personal financial health. Make sure you continue to review your financial goals regularly to adjust for illness of a parent or your own retirement goals. Practice what you preach by making sure you have your own estate planning documents in order.



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Tips to Protect Your Identity

According to the Federal Trade Commission, identity theft has topped its list of consumer complaints every year, for the last 15 years. We offer the following tips to help you protect yourself from becoming a victim of identity theft:

Don't share your secrets.

Don't provide your Social Security number, account information, PINs, and passwords to anyone online or over the phone.

Shred sensitive papers.

Shred receipts, banks statements and unused credit card offers before throwing them away.

Keep an eye out for missing mail.

Fraudsters look for monthly bank or credit card statements or other mail containing your information.

Use online banking to protect yourself.

Monitor your financial accounts regularly for fraudulent transactions. Sign up for text or email alerts from your bank for certain types of transactions.

Monitor your credit report.

Order a free copy of your credit report every four months from one of the three credit reporting agencies at annualcreditreport.com.

Protect your computer.

Make sure the virus protection software on your computer is active and up to date.

Protect your mobile device.

Use the passcode lock on your smartphone and other devices.

Report any suspected fraud to your bank immediately.

For more information visit CNBank.com/Security.

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