Wealth Management

WEALTH OF KNOWLEDGE

NEWSLETTER COVERING THE WEALTH CONTINUUM

Communication is Key - Money Management & Relationships

It is an exciting time of your life – you've graduated college, moved out on your own, landed your dream job, and you've even been lucky enough to find that special someone. The future is looking bright, but you have questions about money mixing into your love life. This dilemma is no small matter; in fact, a study published by SunTrust Bank discovered that 35% of people experiencing relationship stress blame money as the primary culprit*.

The Basics: Transferring Funds – Platforms to Use With money-transferring apps available at the click of a button, splitting the cost has never been easier. But easy doesn't mean safe, or effective. If you have never been affected by fraud, then you probably don't question these apps, but as someone in the financial services industry, I cannot say how important it is to stay protected and be aware of how these apps operate; who can guarantee your funds if something should happen?

Most banks offer a user-friendly mobile app or online site that also simplifies the process of sending/receiving money to/from a significant other. This is a great option, as it provides safety yet still allows you to keep your checking accounts as individuals.

The other suggested platform of use for splitting bills is to open a joint checking account. This option is geared toward those in relationships who have started to completely combine their lives. I say this because each owner in a joint account can withdraw any amount of cash with proper identification, even if they weren't the ones who funded the account.

Next Steps: What's Fair? The next step is to determine whether each partner will pay 50/50 or if there will be another arrangement. It is important to have an open and honest conversation with your significant other regarding this decision.

Based on Percent of Total Household Income: This is a simple concept where both partners add up their net income to get a total: Say Partner 1 brings home $5,000/month and Partner 2 brings home $3,200. Their combined household monthly income would be $8,200; therefore, Partner 1 would pay 61% of all household costs ($5,000/$8,200). Partner 2 would pay 39% of all household costs.

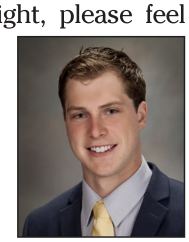
Based on Income Levels: This concept is more of an art than an exact formula. Say one partner decided to go back to school. This leaves a question in terms of fairness, as one partner has sacrificed earnings in an effort to have better opportunities in the future. Here, I would suggest deciding on a "fair" amount for both parties to contribute to household expenses. It may even be easiest to have a fixed dollar amount come out of every paycheck that is intended to be used for expenses. For Partner 1, this amount could be $450/month, for Partner 2, it could be $1,500/month, it will vary based upon your lifestyle and what you decide is fair.

The above conversations can be especially difficult to have if partners came from households who had vastly different approaches to finances. That's okay, it is important to not bring biases into these conversations. Everyone will have an amount or percentage that works for them. Be sure to review from time to time as situations change. You may also find it helpful to keep an active spreadsheet of all payments made. This will help you track how much you spent in a months' time, where those funds were spent, and also allows you to see the totals each partner paid.

Fun Money vs. Household Money vs. Individual Debt: Fixed expenses stay the same every month (rent/mortgage, car payment, savings), and variable expenses range from month to month (utility bills, groceries, gas, "fun-money"). Together, you will need to discuss which expenses will be split and which ones will stay as individual. Next, you will need to decide a fair way to allocate (above). Combining debt can be tricky because if anything should happen to a relationship you are now both on the hook. If this isn't a concern, combining debt may be for the better as two people together may get better financing than as two individuals.

You may notice savings was included in the above fixed expenses list, this is an important part of your budget. You should factor in how much you and your partner wish to set aside for goals such as: emergency accounts, vacations, and retirement. Retirement could be decades away now, but starting early is critical and will result in much less stress later in life. Albert Einstein even said, "Compound interest is the 8th wonder of the world. He who understands it, earns it; he who doesn't, pays it." In a side by side comparison, a person who starts saving $5,000 from 30 to 65, earning 6% rate of return will have $300,000 more than a peer who waits until 40**. At the very least, I always encourage people to contribute what their employer is willing to match, to not do so would be passing up a benefit you have earned.

I like to look at a couple as a team. In a successful team, individuals make sacrifices for the greater good of the whole, and the team flourishes as a result. I encourage you and your partner to discuss your financial goals; agree on what the "team" wants in the future, both short- and long-term. Then, compose a budget that works for you in order to accomplish these goals, sprinkling in the above suggestions wherever you find appropriate. Take the first step by having the conversation, and if that requires having a financial representative present in order to provide insight, please feel free to reach out to one of your trusted Wealth Advisors at Canandaigua National Bank & Trust.



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*https://www.cnbc.com/2015/02/04/money-is-the-leading-cause-of-stress-in-relationships.html
** $5,000 annually invested at the end of the year, 6% annualized return. Early investor dollar amount at 65: $595,604.33. Delayed investor dollar amount at 65: $295,781.91.

Closing A Retirement Income Gap

Determining how much income you'll need in retirement requires projecting the type of lifestyle you plan to have and when you want to retire. However, as you grow closer to retirement, you may discover that your income won't be enough to meet your goals. If you're in that situation, you'll need to adopt a plan to bridge this projected income gap.

Delay retirement: 65 is just a number

One way of dealing with a projected income shortfall is to stay in the workforce longer than you had planned. This will allow you to continue supporting yourself with a salary rather than dipping into your retirement savings. Depending on your income, this could also increase your Social Security retirement benefit. You'll also be able to delay taking your Social Security benefit or distributions from retirement accounts.

Remember, too, that income from a job while receiving Social Security may reduce the benefit you receive if you are under normal retirement age – by $1 for every $2 you earn over $17,640 in 2019. Once you reach normal retirement age, you can earn as much as you want without affecting your Social Security retirement benefit.

Delaying retirement can also let you continue to build tax-deferred funds in your IRA or employer-sponsored retirement plan (or tax-free funds in Roth accounts). And if you're covered by a pension plan at work, you could also consider retiring and then seeking employment elsewhere. This way you can receive a salary and your pension benefit at the same time. Just make sure you fully understand your pension plan options.

Spend less, save more

You might also consider adjusting your spending habits to bridge the income shortfall. Start by preparing a budget to see where your money is going. Here are some ways to stretch your retirement dollars:

- Refinance your home mortgage if interest rates have dropped since you took the loan.
- Reduce your housing expenses by moving to a less expensive home or apartment.
- Sell one of your cars if you have two, and when you need a new car, consider buying a used one.
- Use the proceeds from a second mortgage or home equity line of credit to pay off higher-interest-rate debts.
- Transfer credit card balances from higher-interest cards to a low- or no-interest card, and then cancel the old accounts.
- Ask about insurance discounts and review your insurance needs (your need for life insurance may have lessened).
- Reduce discretionary expenses like lunches and dinners out.

Reallocate your assets: consider investing more aggressively

Some people invest too conservatively to achieve their retirement goals. That's not surprising, because taking on more risk increases your potential for losses. But greater risk also has the potential for greater reward, and with life expectancies rising, retirement funds need to last longer. So if you're facing an income shortfall, you may consider shifting some of your assets to investments that have the potential to outpace inflation.

The amount of investment dollars you might consider keeping in growth-oriented investments depends on how long you have to save and your tolerance for risk. Still, if you are at or near retirement, you may want to keep some of your funds in growth-oriented investments. Get advice from a financial professional if you need help deciding how your assets should be allocated.

A new reality

Once you are within a few years of retirement, prepare a realistic budget that will help you manage your money in retirement. Think long term: Retirees frequently get into budget trouble in the early years of retirement, when they are adjusting to their new lifestyles. Remember that when you are retired, every day is Saturday, so it's easy to overspend.

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As another year comes to a close, the spirit of the holidays reminds us to reflect on all that we have and encourages us to give back to others.

We at CNB Wealth Management would like to say thank you for choosing us to serve your financial needs. We appreciate your business and hope that we continue to exceed your expectations every step of the way. To express our gratitude, we will be making a donation on behalf of you, and all of our clients, to local charities providing vital services and resources to those in need throughout our communities.

From all of us at CNB Wealth Management, we wish you a happy holiday season and much peace and joy in the New Year.

CNC Shareholder Corner

One of the benefits of being a shareholder, is our Travel Club. These experiences have been created with your interests in mind. As always, all trips will be escorted by CNB personnel and are planned on your behalf, to be convenient and provide you with peace of mind while traveling.

For information on our 2020 trips visit:

CNBank.com/TravelExperience

We look forward to traveling with you!