MCDONNELL WEALTH MANAGEMENT

insights

Inside this issue:

- Think you are "good enough" to not have a budget? Think again.
- Revisit the way you think about that four-letter word: debt.
- Be thoughtful about how you protect yourself, your family and your estate.

Five Resolutions to Stay Fiscally 'Fit'

Resolution #1: Create a budget for life

Financially speaking, life can be viewed as a series of cash inflows and outflows. Saving and investing during your working years should hopefully lead to a rising net worth over time, enabling you to achieve many of life's most important goals. Creating your own budget and net worth statement can help you build your road map and stay on track, even during tough times.

Create a budget and pay yourself first

If you're not sure where your money is going, track your spending using a spreadsheet for 30-90 days. Determine how much money you need to cover your fixed monthly expenses, such as your mortgage and car payment, and how much you'd like to put away for retirement. A good rule of thumb is to save 10–15% of pre-tax income starting in your 20s and add 10% for every decade you delay saving for retirement (e.g., if you do not start saving until your 30s, you should be saving 20-25% of pre-tax income).

Project the cost of essential big-ticket items

If you have a big expense in the near-term, like college tuition or roof repair, increase your savings and treat that money as spent. Keep it in relatively liquid, relatively safe investments like short-term certificates of deposit (CDs), a savings account, or money market funds. If you choose to invest in any type of security, make sure the term ends by the time you need the cash.

Prepare for emergencies

If you aren't yet retired, consider having an emergency fund with three to six months' worth of essential living expenses in a savings account or money market fund. That way, you can avoid having to sell securities to raise cash when the market may be down.

Continued on page 2

Continued from page 1

Resolution #2: Think of debt as a tool

Debt is neither inherently good nor bad—it is simply a tool. For most people, some level of debt is a practical necessity. That said, problems arise when debt becomes the master of the borrower, not the other way around. Here's how to stay in charge.

Keep your total debt load manageable

Don't confuse what you can borrow with what you should borrow. A general rule of thumb is to keep the monthly costs of owning a home (principal, interest, taxes and insurance) below 28% of your pre-tax income, and your total monthly debt payments (including credit cards, auto loans, and mortgage payments) below 36% of your pre-tax income.

Use debt as leverage, especially in this historically low interest rate environment

Too often financially stable folks think of debt as a nasty four-letter word. Their parents taught them to do everything they could to eliminate debt (even debt that we would term today as 'healthy" debt, such as a mortgage or appropriate student loan). A classic example of poor financial leverage is taking a large portion of liquid assets and paying off or paying cash for a large asset, such as a car or even a secondary home. Instead, taking out a shorter term line of credit at a low rate allows you to have your cake (the asset) and let that liquid money continue to earn a rate of return above the lending rate, or even use it to invest in something additional (we call that "eating it too").

Eliminate high-cost, non-deductible consumer debt

It is no surprise, but credit card debt is the absolute worst type of debt imaginable. Typically, no investment return can match the annual interest paid to a credit card company. In general, if you have a credit card balance, you should do everything you can to pay off that debt, even eliminating your other savings in some cases until it is paid.

Resolution #3: Prepare for the inevitable: the unexpected

Your financial life can be upended by all kinds of nasty surprises—an illness, job loss, disability, death, natural disasters or lawsuits. If you don't have enough assets to self-insure against major risks, resolve to get your insurance in shape. The following guidelines could help you prepare for any of life's unexpected moments.

Purchase/Retain life insurance only if necessary

First, take advantage of the policy offered by your employer. If you have minor children or you have large liabilities that will continue after your death for which you can't self-insure, you may need additional life insurance. Consider purchasing a low-cost term life policy rather than a whole life policy and invest the cost savings. If you are retired, no longer have dependents, and/or no further liabilities to fund at death, you may not need life insurance. Insurance is inherently expensive, and those premium payments and/or cash value may be better invested at a lower overall cost.

Protect your earning power with long-term disability insurance

The odds of becoming disabled are greater than the odds of dying young. According to the National Association of Insurance Commissioners, at age 32, the chance of being disabled for 90 days is 6.5 times greater than the chance of death. If you can't get adequate short- and long-term coverage through work, consider an individual policy.

Continued from page 2

Consider the pros and cons of long-term-care insurance

About 59% of people over 65 don't spend any time in a nursing home, but for those who do, the average stay is approximately 2½ years. Look for a policy that provides the right type of care and is guaranteed renewable with locked-in premium rates. Is LTC insurance expensive? You betcha. But, so is a nursing home stay (currently costing $60K/yr, based on a national average). If you are 55 today and need nursing home care at 75, a stay could cost $160K/yr (cost are expected to rise 5% per year, at minimum). BE CAREFUL when looking for LTC insurance. The policies are inherently complicated, and benefits vary greatly between policies and insurers. A great deal of education and understanding should occur before actually purchasing a policy.

Resolution #4: Protect your estate

Without an estate plan, the fate of your assets or minor children may be decided by attorneys, government bureaucrats and tax agencies. Taxes and attorney fees can eat away at your estate, and delay the distribution of assets just when your heirs need them most. Here's how to protect your estate—and your loved ones.

Update your will, or if you don't have one yet, prepare it this year

A will can provide for your dependents' support and care, and help you avoid the costs and delays associated with dying without one.

Have durable powers of attorney and health care

In these documents, appoint trusted and competent confidants to make decisions on your behalf if you become incapacitated.

Consider creating a revocable living trust

You may want to explore creating a revocable living trust if these items are of high importance: privacy, settling your estate quickly and efficiently, and having zero room for misinterpretation. A living trust allows an estate to bypass the court administered, public probate process. In addition, it typically allows for a level of detail and process that is especially important for those with more complex estates, i.e. multiple assets, various beneficiaries, charitable interests, business interests, etc. A common misconception is trusts are only for the ultra-wealthy. Many professionals agree that if you have a net worth that exceeds $100K (total assets – total liabilities = net worth), you would benefit from a living revocable trust. Although costs vary by location and estate complexity, an average cost for a standard estate plan (living revocable trust and powers of attorney and healthcare) is $2,500-$3,500.

Update your beneficiaries and coordinate asset titling with your entire estate plan

The titling of your property and non-retirement accounts can affect the ultimate disposition and taxation of your assets. It is important to review annually all of your accounts, such as joint accounts, IRA's, 401K's, pension plans, other retirement accounts, and transfer on death (TOD) elections, for titling and beneficiary accuracy. Common overlooks include former spouses, parents whose kids are now responsible adults, deceased beneficiaries, and missing beneficiaries (no election). Also, if you have a living revocable trust, in most cases, all of your beneficiary elections should be titled in the name of your trust.

Resolution #5: Take a deep breath

Finally, remember you don't have to do everything at once. Take one step at a time. If you do not know where to start, make a list of your top three financial concerns and simply pick one to work on. We are here to help you in any way we can on your journey.

Who We Are

McDonnell Wealth Management is an independent registered investment advisor (RIA) that helps clients accumulate, preserve and transfer wealth through comprehensive financial planning. Our goal is to organize and simplify our clients' financial lives, so their wealth becomes a tool to accomplish what is most important to them. We take an ***integrated approach to wealth management***, giving consideration to how a client's investments, tax situation, estate plan, risk exposure and life goals all work together.

We are committed to our craft. Both of our firm's principals have earned the Certified Financial Planner™ designation, taking the extra steps to demonstrate professionalism by voluntarily submitting to the rigorous CFP® certification process that includes demanding education, examination, experience and ethical requirements. With a combined 30 plus years of experience advising clients, we have created a process called ***Goals Driven Wealth Management*** that ensures our client's unique needs, goals and circumstances are incorporated into every aspect of their financial game plan. Too many advisors today forget that "managing wealth" is not just about picking investments. We invest the time to truly understand our clients from the ground-up, listening to what matters most to them and what they want to accomplish. Only then are we able to connect clients to the most appropriate investment strategy, and update that plan as our clients' lives evolve and change.

Our Integrated Wealth Management Services include:

- Comprehensive Financial Planning
- Investment Advisory
- Portfolio Management
- Tax Advisory
- Estate Planning
- Risk Management
- Employee Benefit Plans for Business Owners
- Investment Policy Statement Administration
- Institutional Asset Management

Meet our Principals

Joseph J. McDonnell, CPA, CFP®, PFS®

joe@mcdonnellwealth.com

There are few professionals who can truly call themselves a personal Chief Financial Officer, having studied and practiced for years on the tax implications of investments, trusts and estates, and retirement. Joe is one of those few consummate professionals. He has spent over 25 years as a CPA and advisor to a myriad of clients, including individuals, business owners, corporations, non-profits, associations, school districts and municipalities.

Christopher J. McDonnell, CFP®

chris@mcdonnellwealth.com

Chris has extensive experience creating comprehensive financial plans for families and business owners. He has studied and been trained to use statistical analysis to design and manage multi-faceted investment portfolios and adhere to disciplines that help control and monitor risk. In addition, he has unique experience working with non-profits and company 401K plans.