Montlake Financial Services, LLC
Jon Munson, CPA/PFS
602-689-1020
jmunson@montlakefinancial.com
www.MontlakeFinancial.com

Montlake Financial News

Have You Made Any of These Financial Mistakes?

As people move through different stages of life, there are new financial opportunities — and potential pitfalls — around every corner. Have you made any of these mistakes?

Your 50s and 60s

1. Raiding your home equity or retirement funds. It goes without saying that doing so will prolong your debt and/or reduce your nest egg.

2. Not quantifying your expected retirement income. As you near retirement, you should know how much money you (and your spouse, if applicable) can expect from three sources:

- Your retirement accounts such as 401(k) plans, 403(b) plans, and IRAs
- Pension income from your employer, if any
- Social Security (at age 62, at your full retirement age, and at age 70)

3. Co-signing loans for adult children. Co-signing means you're 100% on the hook if your child can't pay, a less-than-ideal situation as you're getting ready to retire.

4. Living an unhealthy lifestyle. Take steps now to improve your diet and fitness level. Not only will you feel better today, but you may reduce your health-care costs in the future.

Your 40s

1. Trying to keep up with the Joneses. Appearances can be deceptive. The nice lifestyle your friends, neighbors, or colleagues enjoy might look nice on the outside, but behind the scenes there may be a lot of debt supporting that lifestyle. Don't spend money you don't have trying to keep up with others.

2. Funding college over retirement. In your 40s, saving for your children's college costs at the expense of your own retirement may be a mistake. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Then sit down with your teenager and have a frank discussion about college options that won't break the bank — for either of you.

3. Not having a will or an advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

Your 30s

1. Being house poor. Whether you're buying your first home or trading up, think twice about buying a house you can't afford, even if the bank says you can. Build in some wiggle room for a possible dip in household income that could result from leaving the workforce to raise a family or a job change or layoff.

2. Not saving for retirement. Maybe your 20s passed you by in a bit of a blur and retirement wasn't even on your radar. But now that you're in your 30s, it's essential to start saving for retirement. Start now, and you still have 30 years or more to save. Wait much longer, and it can be very hard to catch up.

3. Not protecting yourself with life and disability insurance. Life is unpredictable. Consider what would happen if one day you were unable to work and earn a paycheck. Life and disability insurance can help protect you and your family. Though the cost and availability of life insurance will depend on several factors including your health, generally the younger you are when you buy life insurance, the lower your premiums will be.

Your 20s

1. Living beyond your means. It's tempting to splurge on gadgets, entertainment, and travel, but if you can't pay for most of your wants up front, then you need to rein in your lifestyle, especially if you have student loans to repay.

2. Not paying yourself first. Save a portion of every paycheck first and then spend what's left over, not the other way around. And why not start saving for retirement, too? Earmark a portion of your annual pay now for retirement and your 67-year-old self will thank you.

3. Being financially illiterate. Learn as much as you can about saving, budgeting, and investing now and you could benefit from it for the rest of your life.

Montlake Financial News - September

Montlake
FINANCIAL SERVICES, LLC

Investing to Save Time Boosts Happiness Returns

"Time famine" is the feeling of being overwhelmed by the demands of work and life. Also known as time scarcity and time stress, this pressure is a "critical factor" in the rising rates of obesity.

Source: "Buying Time Promotes Happiness," PNAS, July 24, 2017

The more money you make, the more valuable you perceive your time to be — and the more time-strapped you may feel, according to University of British Columbia psychology professor Elizabeth Dunn.[1] So wouldn't it stand to reason that if you use some of your hard-earned money to buy yourself more time — for example, by paying someone to clean your house or mow your lawn — you might achieve a greater level of happiness? Indeed, that was the primary finding in a series of studies by Professor Dunn and other researchers published in the Proceedings of the National Academy of Sciences (PNAS).[2]

The discovery

The study's authors surveyed 6,000 individuals at diverse income levels in multiple countries, including the United States, Canada, the Netherlands, and Denmark. The surveys queried participants about whether they spent money on a monthly basis to hire others to take care of unpleasant or time-consuming daily tasks or chores — such as cleaning, yard work, cooking, and errand-running — and if so, how much they spent. Respondents were also asked to rate their "satisfaction with life" and report demographic information, such as their income level and whether they were married and had children.

Researchers found that across all national samples, 28.2% of respondents spent an average of about $148 per month to outsource disliked tasks, while in the United States, 50% of respondents spent an average of $80 to $99 on services that save time. Across all studies, those who spent money to outsource disliked tasks and/or save time had a stronger life satisfaction rating. Findings were consistent across income spectrums; in fact, in the United States, researchers found a stronger correlation among the less-affluent respondents. The authors noted, however, that their studies did not include enough people at the lowest end of the income spectrum to attribute similar findings to this group.

Of course, correlation does not necessarily indicate causality, so the researchers designed a follow-up experiment to further test their hypothesis.

In this experiment, researchers gave a group of 40 adults $80 each to spend over the course of two weekends. During the first weekend, they were to spend $40 on something that would save them time, such as ordering groceries online and having them delivered. On the second weekend, they were directed to spend $40 on a nice material purchase, such as clothes, board games, or a bottle of wine. On average, those who spent money to save time reported better moods at the end of the day than those who purchased material goods. And according to the researchers, over time, the effect of regular mood boosts can add up to greater overall satisfaction with life.

In a third study, researchers asked respondents how they would spend an extra $40. Just 2% indicated they would use the unexpected bonus to invest in time-saving services.

Perhaps most surprising of all the findings? Researchers polled 800 millionaires from the Netherlands about whether they spent money to save time. Despite the fact that these individuals could readily afford to hire others to take care of time-consuming tasks, only about half of them reported doing so on a monthly basis. Researchers surmise that the reason might be because such individuals feel guilty or don't want to be perceived as lazy for outsourcing chores they can easily do themselves.

The lesson

"If you have a lot of money and a lot of nice stuff, but you're spending your time doing things that you dislike, then your minute-to-minute happiness and overall happiness is likely to be pretty low," said Dunn in an interview about the research.[3] In the PNAS report, the study's authors contend that this may be especially true for women:

"Within many cultures, women may feel obligated to complete household tasks themselves, working a 'second-shift' at home, even when they can afford to pay someone to help. In recent decades, women have made gains, such as improved access to education, but their life satisfaction has declined; increasing uptake of time-saving services may provide a pathway toward reducing the harmful effects of women's second shift."

The bottom line? If you can afford it, don't shy away from spending money to save time. Doing so is an investment that provides immeasurable returns in the form of overall well-being.

[1] "What Is Your Time Really Worth?" Elizabeth Dunn, TEDx Colorado Springs, December 1, 2014

[2] "Buying Time Promotes Happiness," PNAS, July 24, 2017

[3] "A Psychology Expert Says Spending Your Money on This Can Boost Your Happiness," CNBC, November 10, 2017

Montlake
FINANCIAL SERVICES, LLC

Life Insurance with a Refund

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Optional riders are available for an additional fee and are subject to contractual terms, conditions, and limitations as outlined in the prospectus and may not benefit all investors.

The return of premium, as well as any other guarantees related to life insurance, are contingent on the claims-paying ability and financial strength of the issuer.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. There is no assurance that working with a financial professional will improve investment results.

Comparatively speaking, of all the different types of life insurance available, term is usually the least expensive. Generally, term life insurance provides protection for a stated or defined period of time, usually from one year to 30 years. If you die during the coverage term, your beneficiary receives the death benefit from the policy. But what if you outlive the term? With return of premium (ROP) life insurance, you receive the return of all your premium payments at the end of the policy term if certain conditions are met.

What is ROP?

Variations may apply, but generally ROP is term life insurance coverage for a specific number of years (term). The face amount of the policy, or death benefit, is paid to your beneficiaries if you die during the term. But unlike straight term, if you live longer than the term, all of your premiums are returned to you with ROP as long as the policy was in good standing and in force at the end of the term. Some insurers even pay back a prorated portion of your premium if you cancel the ROP term insurance before the end of the term. Also, the premium returned generally is not considered ordinary income, so you won't have to pay income taxes on the money you receive from the insurance company. (Please consult your tax adviser.)

Some particulars

Unlike permanent cash value life insurance, ROP premiums generally do not earn interest or appreciate in value. Also, the premium returned usually does not include the return of added premium charges for substandard coverage (extra premium charged for poor health) or costs for certain policy riders (extra premium you pay for benefits added to the basic term policy, such as a disability rider).

The cost of ROP can be significantly greater than straight term insurance, depending on the issuer, age of the insured, amount of coverage (death benefit), and length of the term. But ROP almost always costs less than permanent life insurance with the same death benefit. While straight term insurance can be purchased for terms as short as one year, most ROP insurance is sold for terms of 10 years or longer.

Is ROP right for you?

Before you buy life insurance, you should know how much insurance you need. Your need for insurance is based on numerous factors, some of which include your current age and income, your marital status, the number of incomes in your household, your number of dependents, your long-term financial goals, the amount of your outstanding debt, your existing life insurance, and your other assets. You should also consider your overall financial, estate, and tax planning goals as part of your insurance needs evaluation.

Term insurance is appropriate for situations when there is a high need for insurance but not much cash flow to pay for it. For example, a young family with limited cash resources may have a great need for survivor income to provide for living expenses and education needs. Also, term insurance may be appropriate to cover needs for a limited period of time, such as coverage during your working years, your children's college years, or for the duration of a loan or mortgage.

Whether to consider ROP term insurance usually revolves around a few issues. Does the added cost of ROP fit into your budget? It's great to know you can get your money back if you outlive the term of your life insurance coverage, but there is a cost for that benefit. Also, if you die during the term of insurance coverage, your beneficiaries will receive the same death benefit from the ROP policy as they will from the less-expensive straight term.

Some financial professionals recommend that the best way to provide for your life insurance needs is to "buy term and invest the difference." This suggestion is based on the premise that you know how long you will need life insurance protection (until your mortgage is paid off, for example), and that you'll be able to get a better return on your savings from other investments. The same rationale may apply to ROP term insurance. Since your premiums do not earn interest while with the issuer, they likely will not keep up with inflation. So you may want to consider paying the lower premiums for straight term insurance and investing the difference to potentially accumulate more savings.

When choosing between these two alternatives, you may want to think about the amount of coverage you need, the amount of money you can afford to spend, and the length of time you need the coverage to continue. Your insurance professional can help you by providing information on straight term and ROP term life insurance, including their respective premium costs.

Montlake
FINANCIAL SERVICES, LLC

Montlake Financial Services, LLC
Jon Munson, CPA/PFS
602-689-1020
jmunson@montlakefinancial.com
www.MontlakeFinancial.com

As a business owner, what should I know about using temporary workers?

If you're planning to ramp up your temporary staff this summer, here are a few things to know.

Generally, temporary work is any work that is not intended to be permanent or long term. Temporary work can be full- or part-time. Use of temporary workers (sometimes referred to as temps) may provide you with some flexibility to handle employee absences due to illness, vacation, or maternity leave. They may also help you handle special projects, busy times, or seasonal work.

Temporary workers can be hired directly or through a temporary employment agency. Temporary workers you hire directly, even if part-time, are generally treated the same as full-time workers and may be entitled to employee benefits through you. For example, a worker who completes 1,000 hours of service in a year may be eligible to participate in your retirement plan.

On the other hand, a temporary employee hired through a temp agency works for the agency, not for you. The employment agency is generally responsible for the temporary employee's benefits, if any. The hourly wage rate you pay to the agency may be higher as a result.

The temp agency can save you time and effort by finding and screening potential employees so that you don't have to. The agency may have a pool of workers available at any time and at a moment's notice. The screening, in particular, may be worth the extra cost in the current tight job market.

However, you may need to break in or train a temporary employee each time you get one from the employment agency. To minimize this, you may request that the employment agency send a temporary employee who has already worked for you before.

Sometimes a temporary employee may become a permanent employee. If an employee was hired through a temporary employment agency, depending on your contract with the employment agency, you may need to pay a fee to the agency if you permanently hire the temporary employee.

When should I submit college financial aid forms?

For the 2019-2020 school year, the federal government's financial aid form, the FAFSA, can be filed as early as October 1, 2018. It relies on current asset information and two-year-old income information from your 2017 tax return, which means you'll have the income data you need when you sit down to complete the form. This is a relatively new process. A few years ago, parents had to wait until after January 1 to file the FAFSA and use tax data for the year that had just ended, which forced them to scramble to complete their tax return in order to complete the FAFSA.

If you have a new or returning college student, it's a good idea to file the FAFSA as early as possible in the fall because some aid programs operate on a first-come, first-served basis. The deadline for filing the FAFSA is typically March or April and will vary by college. But don't wait until then. It's a good idea to submit any college aid forms as early as possible, too.

The FAFSA is a prerequisite for federal student loans, grants, and work-study. In addition, colleges typically require the FAFSA before distributing their own need-based aid and, in some cases, merit-based aid. Even in cases when you don't expect your child to qualify for need-based aid, there may be another reason to submit the FAFSA. All students attending college at least half-time are eligible for federal unsubsidized Direct Loans regardless of financial need. ("Unsubsidized" means the borrower, rather than the government, pays the interest that accrues during school, the grace period after graduation, and any deferment periods.) So if you want your child to have some "skin in the game" with a small loan, you'll need to file the FAFSA. (Loan amounts are capped each year: $5,500 freshman year, $6,500 sophomore year, and $7,500 junior and senior years.) What if you file the FAFSA but then change your mind about taking out a loan? Don't worry, you aren't locked in. Your child can always decline the loan after it's offered.

The FAFSA is available online at fafsa.ed.gov. In order to file it, you'll need to create an FSA ID if you haven't done so already (follow the online instructions). You'll need to resubmit the FAFSA each year, but fortunately you can use the built-in IRS Data Retrieval Tool to have your tax data electronically imported, which saves time and minimizes errors.

Montlake FINANCIAL SERVICES, LLC