Financial focus

Alliance of Comprehensive Planners

SUMMER 2019

In This Issue

Money Personalities

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We all recognize that people have different personalities. Some people are very outgoing and funny—others are more reserved and serious. Personalities help make each of us unique, and each personality has strengths and weaknesses to it. The same is true of money personalities—read on and **take the quiz at the end** to see where you fall on the matrix.

The matrix and the following descriptions are summarized from Bert Whitehead's book, ***Why Smart People Do Stupid Things with Money: Overcoming Financial Dysfunction***.

EXTREME TYPES

Scrooge
Scrooges are highly motivated to accumulate wealth and are very good savers. This personality type tends to be very distrustful of others and uses money to control others. Scrooges are susceptible to making big mistakes when it comes to taxes and investments.

Gambler
Gamblers are very motivated to get rich but tend to be extreme spenders. Many times, the gambler has addiction problems. The gambler often swings from over-optimism in their ability to "strike it rich" to deep regret and depression. Gamblers are susceptible to financial schemes that promise quick riches. They are also susceptible to becoming involved in white-collar crime because their spending is unsustainable.

Miser
Misers are very good savers but base financial decisions on fear. Misers keep most of their savings in very low-return investments such as bank savings accounts or certificates of deposit. They are afraid of losing what they have saved. Misers are susceptible to being taken advantage of by financial salesman who exploit their fear. Misers also generally do not allow the money they have saved to be a blessing to them or those around them.

Shopaholic
Shopaholics tend to be fun people to be around! They enjoy spending on themselves and others—they always pick up the tab. Most of the time, spending has become an addiction for the shopaholic, and they are very disorganized with financial records.

MORE TYPICAL TYPES

Entrepreneur
Entrepreneurs are risk-takers who generally start businesses. Much of the time, the entrepreneur's financial resources and relationships are all tied to the business. Money is an important motivator for the entrepreneur. This person is typically susceptible to having too many of their assets tied to the business and not having enough cash available to weather downturns.

Nester
Nesters are good at saving and put much of their savings into their home. Nesters are very community and family-focused. Nesters do well with money but tend to make a couple of financial mistakes. They typically pay off their mortgage as quickly as possible instead of being diversified with their investments. Nesters are also susceptible to time-share and vacation home salesmen.

Bon Vivant
Bon Vivants are the work hard, play hard crowd. Bon Vivants work hard because of the status money can bring them. Bon Vivants like to spend money on things that save time and show off their success. Bon Vivants may be susceptible to salesmen who exploit their desire for status.

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The Truth About Why to Invest in Real Estate

By Bridget Sullivan Mermel, CFP®, CPA, MA
Chicago, IL

The trauma is officially over—I'm again seeing articles about real estate with outrageous claims. "While prices fluctuate, over the long run, real estate values have always gone up, always, and there is no reason to think that is going to change," says one blog. Yeah, right. Also coming over the transom are claims about "passive income." That is money you "earn while you're sitting on the couch in your underwear, eating Cheetos." I'm officially skeptical!

All the hype aside, there are great reasons to buy a real estate. Believing that values of real estate always go up just isn't one of them. Here are four good reasons to buy real estate:

Protection Against Inflation

When you buy a principal residence, you lock in your biggest monthly expense. Now, instead of paying rent to a landlord, you're paying mortgage interest. The big plus of owning, though, is at the same time, you're locking in that payment for the life of your mortgage loan. It's like locking in your rent for the next 30 years. That means that no matter what happens with inflation, your biggest expense won't go up. You can spend more money on everything else, but your biggest expense is fixed.

An Investment You Can Enjoy

You get to live in it. When we put money in a savings account or retirement account, we can't actively enjoy the money. We can't sleep in our mutual funds or throw a party in our savings account. Real estate is tangible. You can see it, feel it, and kick it. That's unique in your net worth. It's something that you can really enjoy.

Meaningful Community Connections

People find their lives more meaningful when they are connected to organizations larger than themselves. Getting involved in your local community can help bring more meaning to your life, and it also may increase the value of your investment. For instance, I've seen neighborhood groups across Chicago get together to advocate for better schools. Their efforts pay off. Pretty soon, other families are attracted to the neighborhood because of the good school. This increases the price of the original investment in houses and improves education for local youth.

Solid Component of Net Worth

Don't buy real estate because you think the value is always going to go up. It doesn't. That being said, if you understand the risks when you buy, you can protect yourself against them. With real estate, you get a mortgage, which means that you are taking advantage of leverage. Let's go over a simplified example to illustrate the concept of leverage.

Mary and Jem buy a $200,000 house. They put 20%, or $40,000, down and get a mortgage of $160,000. That means Mary and Jem have spent $40,000 for a $200,000 investment. In year one, the price goes up from $200,000, to $210,000. If they sold, theoretically, they would get that entire $10,000.

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Money Personalities (Cont.)

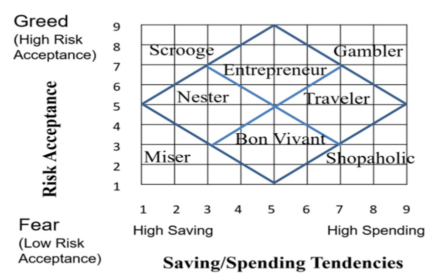
Traveler
For the traveler, money is not a huge concern. Travelers tend to be minimalistic and spend money on experiences rather than material things. Travelers enjoy being in the moment but tend to neglect financial planning for the future.

TAKE THIS SHORT QUIZ TO DETERMINE YOUR MONEY PERSONALITY:

1. How would you describe your level of accepting risk? (choose one)
   - The most important thing to do with my money is keep it safe. (1 point)
   - I believe a bird in the hand is worth two in the bush. (2 points)
   - Risk-taking often makes me worry. (3 points)
   - I am generally conservative when dealing with risk. (4 points)
   - Sometimes I take risks, and sometimes I play it safe. (5 points)
   - I am generally aggressive when dealing with risk. (6 points)
   - Sometimes I take risk on impulse. (7 points)
   - I take big risks but choose them carefully. (8 points)
   - I'm willing to take a lot of risk for the chance of a big financial reward. (9 points)

2. How would you describe your saving/spending inclinations? (choose one)
   - I squeeze every penny I can out of my budget. (1 point)
   - Use it up, wear it out, make it do, or do without. (2 points)
   - I am a very careful shopper and use coupons. (3 points)
   - I buy quality and rely on brand names. (4 points)
   - I save 10% of my income. (5 points)
   - I like to pamper myself with little things. (6 points)
   - I love to really splurge once in a while. (7 points)
   - Life is short. Eat dessert first. (8 points)
   - I spend every penny I get! (9 points)

Calculating Your Money Personality
Take your score from question 1 and locate this on the left side of the grid below. Then, take your score from question 2 and locate this on the bottom section of the below grid. Your money personality is where the two scores intersect in the grid.



How You Can Use **Your HSA** *for Tax-Free Retirement Savings*

By Patti Hughes, CFP®, CPA, MS
Chicago, IL

For many people on high-deductible health plans (HDHPs), health savings accounts (HSAs) are a great way to save money on medical expenses. What often gets overlooked is their potential as a retirement savings tool. Anyone who qualifies for an HSA should consider how it can fit into both their short- and long-term financial plan.

An HDHP charges lower premiums but has higher annual out-of-pocket deductibles than other medical insurance plans. An HSA is a tax-advantaged savings vehicle available only to those enrolled in an HDHP. An HSA allows you to put money away on a pre-tax basis to be used to pay for medical expenses (up to an annual limit). The investment growth is tax-free, and it is never taxed if used to pay for medical expenses. Some choose to pay for their annual medical expenses directly now, but also invest money in an HSA, where it can grow tax-free. They save the tax they would have paid on the income that goes into the HSA. They save taxes now and plan to take the money out at a much later date to pay for the medical expenses they paid this year (keep the receipts) and/or for future medical expenses. If they are able to pay medical expenses now, the receipts they save from their current medical expenses can be used to ask for tax-free reimbursements years later.

HSA withdrawals must be used for qualified medical expenses such as doctor visits, medications, dental, and other qualified expenses. You can make a withdrawal at any point in the future for any qualified expenses incurred since you opened the account, but you do have to keep accurate records and receipts for medical expenses in order to withdraw them from your HSA in future years.

To give a simple example, assume you have a gross income of $100,000. After a 25% federal tax, a 5% state tax, and a 7.65% FICA tax, a dollar of marginal income would be worth 62 cents to you after paying taxes. Say you incurred a $2,000 bill for braces—if you paid for this bill now on an after-tax basis, you would need to earn $3,226 of income to net the $2,000 needed to pay for the braces, because $1,226 of that income would go to pay the taxes. If you use your HSA to pay for the braces, you would be paying for it with pre-tax dollars, and would only need $2,000.

The usual approach is to fund your HSA each year and use it to pay current medical expenses. If you are lucky and don't have annual medical expenses as large as the annual limit on HSA contributions, your HSA will grow over the years. However, if you are fortunate enough to 1) be able to pay for current medical expenses with after-tax income, 2) maximize your tax-deferred contributions to your 401(k) account, and 3) fund your HSA in addition each year, you can use the HSA as an additional retirement savings account. You can allow the assets to compound and grow as long as possible while you pay out of pocket medical costs with current funds. In the above example, if you had saved the receipt for the $2,000 braces, you could withdraw this $2,000 thirty years later when the HSA assets have grown, and the withdrawal would be tax-free. Your HSA can also eventually be used to pay for Medicare premiums or long-term care insurance.

When comparing HSAs to ordinary 401(k)s, it's worth noting that contributions to both are made on a pre-tax basis, so they reduce your taxable income in the year you make the contribution (this does not apply to Roth 401(k)s). Both HSAs and 401(k)s grow on a tax-deferred basis, but the main difference is that the HSA distribution is tax-free at the

time of the withdrawal (with documentation of qualified medical expenses). The 401(k) distribution is taxable when withdrawn.

What happens if your HSA growth exceeds your reimbursable medical expenses? If you withdraw HSA funds after age 65 without proof of medical expenses, you will pay ordinary income tax (just as you do with 401(k) withdrawals, but there will be no penalty. Before age 65, there is an additional 20% penalty on withdrawals from an HSA not used to pay for medical expenses. Most people just use the HSA to pay for current year medical expenses, but the HSA can also be used as an effective retirement planning strategy. It's worth considering how the HSA can fit into your plans. Your financial advisor can determine if this tax-saving strategy is a fit for you.

The Truth About Why to Invest in Real Estate (Cont.)

That means they would get $10,000 on the $40,000 they put into the investment. Mary and Jem are happy. They've made 25% on their $40,000 cash outlay in one year.

As a lot of people learned in the real estate bust, there's a big downside to leverage, too. If the price of the house goes down to $190,000, they'll get $30,000 back when they go to pay off the mortgage. So, they put in $40,000, and got back $30,000. They lost $10,000.

What happened to a lot of people in the 2008 downturn was this: They bought a $200,000 house, but they put 5% down. So, they put in $10,000 and they had a $190,000 mortgage. When they wanted to sell, they could get $170,000 for the house. But they owed the bank $190,000. In other words, they'd have to pay $20,000 to sell their house. To keep things simple, this example doesn't even include closing costs, which make the numbers significantly worse.

That's why you want to protect yourself. Put 20% down and don't buy unless you intend to stay in your house for at least five years. The vast majority of the time, this protects you against the risks involved in leverage. What about buying a house outright? Without leverage, you miss out on the inflation protection. Also, real estate prices in general don't go up enough to make it a great investment without leverage.

Be aware of the potential downsides. To protect yourself against the downsides of real estate, repeat after me: 20% down, five years.

On the Legacy Letter

By Mike Ryan, CFP®, MBA
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Facing one's mortality, though not especially pleasant, is nonetheless necessary for many reasons—the primary one being that so far, very few people have gotten out of this world alive. You know what they say about death and taxes! Thus, everyone should have a legal will in place to let those who survive them know how they want their assets distributed after they leave this mortal coil. I have stressed the importance of having a will, a power of attorney, and a living will in place to all my clients. These documents codify your wishes for future reference.

Recently, I have come to believe there is another "will" which can also be very important for folks to consider, and this is the "ethical will" or legacy letter. In some cases, this type of will may eventually be valued even more highly than a legal will used to distribute assets. An "ethical will" or legacy letter can serve many functions for a family; it can even be viewed as a "love letter" left to one's family, but it can be so much more.

Many worry about how much and to whom to leave their money after they are gone, but it's perhaps as important to leave your beliefs with those whom you love. An ethical will can accomplish this as you record those things which have been most important to you. You can also share the lessons that life taught you along the way. If relationships have suffered over the years, you can approach those issues with either forgiveness or by asking for forgiveness.

Here are some other issues that can be addressed with "legacy letters":

- It is one way of sharing your values as well as your hopes and dreams for the future of your family.
- You can recount your life story, how you faced hardships or successes, or where you looked for help in times of trouble. If you don't share your story while you are alive it could be lost to future generations.
- Ethical wills offer a wonderful opportunity to share not only personal values but also advice to future generations. You can even offer suggestions about how any money you leave could be spent.
- You can share the important life lessons that you have learned and how you learned them.
- If you are spiritual, it offers you a chance to share some of your spiritual values and beliefs.
- It's another chance to let your loved ones know that you love them and what makes them special to you.

In summary, a legacy letter gives you the opportunity to share what you have found to be of utmost importance in your life with your current family as well as those who will follow. The letter is not easy to write as it forces you to reflect on your life thus far and ask yourself how you would like to be remembered. The exercise of writing one may even prompt you to make some long-delayed changes and refocus on what you believe to be truly important in your life. Writing a legacy letter reminds us once again that though money does matter, it is never the most important thing in our lives.

There are many references to legacy letters online as well as guidance on how to write one. I encourage you to consider whether this type of "will" has a place among your estate planning documents.

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