

**The Massachusetts Collectors and Treasurers Association  
64th Annual Conference on Local Taxation and Finance  
June 2013**

**Organizing Your Financial Life**

Presented by:

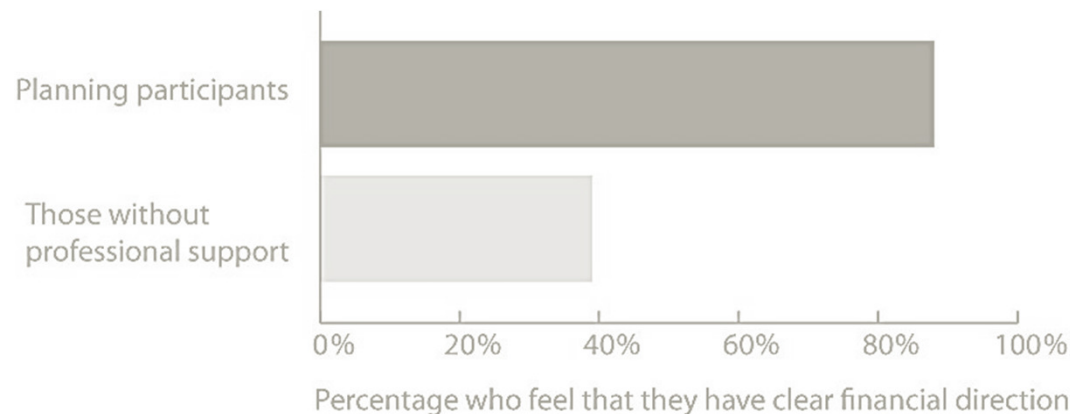
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# Study Statistics Worth Noting

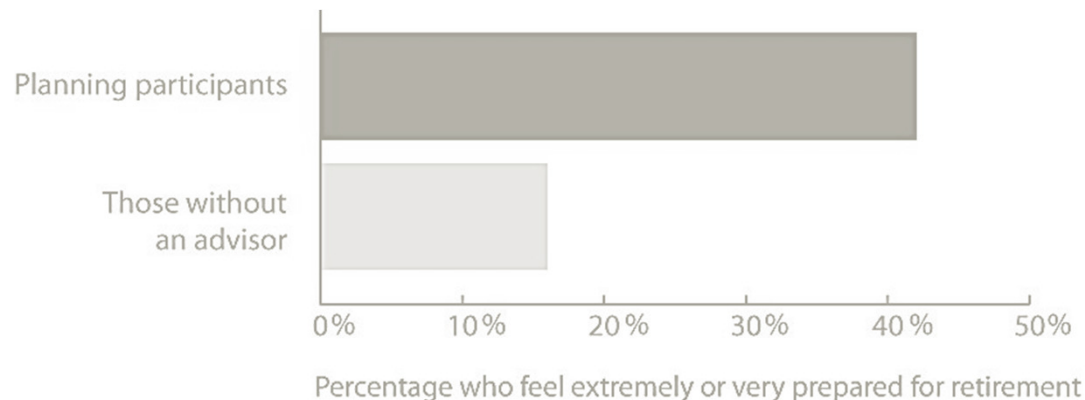
- 9 out of 10 planning participants (88%) feel that they have clear financial direction, which is about 50% higher than those who don't have professional support.



- 50% of the planning participants feel that they are in control of their financial future.

# Study Statistics Worth Noting *continued*

- 42% of planning participants feel extremely or very prepared for retirement (vs. 16% of those without an advisor).



- Planning participants are 50% more likely to say their goals and dreams are financially secure.

# What's Most Important to You?

- One benefit of planning is that it gets you thinking about what is really most important to you.
- Your concerns over your finances are likely more specific than “I want more money.”
  - What is the “why?” behind your goals?
- What is meaningful to you may not always be quantified in dollars and cents.

# Important, Intangible Goals

- We already mentioned that some of the items that are important to you are going to be less tangible, like:
  - Family
  - Community service
  - Leaving a legacy
- These intangible items can be reframed in terms of quantifiable financial planning goals, like:
  - Protecting your family by having adequate insurance
  - Leaving behind a legacy with a properly structured estate plan
  - Giving back to your community with a charitable trust

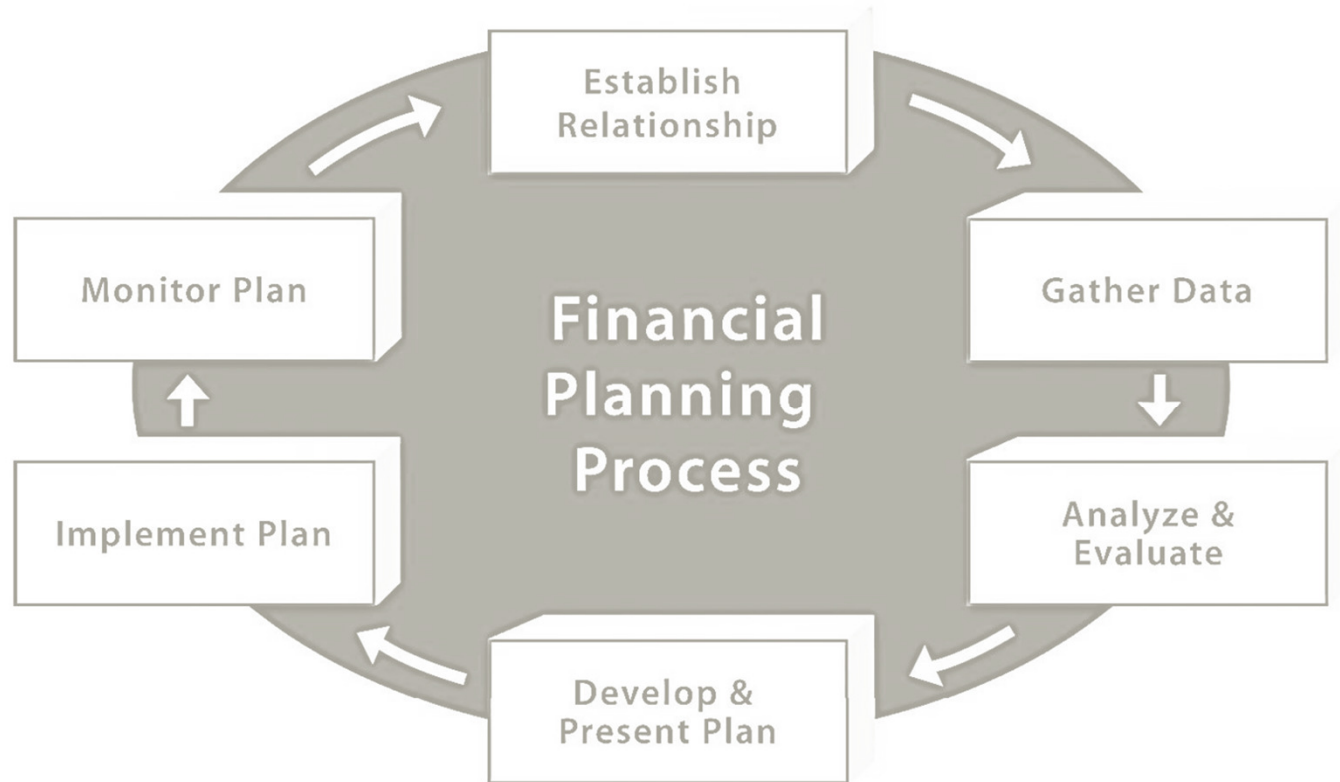
# A Methodical Approach to What-If Worries

- It's normal to question how things would look for you if different variables changed.
  - How will adjusting certain goals for time and cost impact your ability to attain them?
  - What if you were to save more and spend less?
  - What if you had to save less?
  - What if your investments declined more or less over time?
- A Monte Carlo simulation can provide perspective
  - Takes into account the bad years (kind of like what we're seeing now) and shuffles the cards in order to convey a realistic expectation of what could happen based on different scenarios.

# A Written Financial Plan

- Road map to your goals
- Includes probability of reaching goals based on testing
- Living, breathing document
  - A good plan is updated regularly—typically annually—to ensure that it still matches your current situation and accounts for any changes.
  - A financial professional monitors the plan and keeps you on track with your goals.
  - Just like no two clients are alike, no two plans are alike!

# The Planning Process





# Get Organized!

## Paying bills

- Automate, automate, automate
- Lose the paper—go green!
- Take advantage of technology (push or pull)
  - Auto-pay from your bank (push)
  - Auto-deduction by vendor (pull)
- Automatic payment reminders

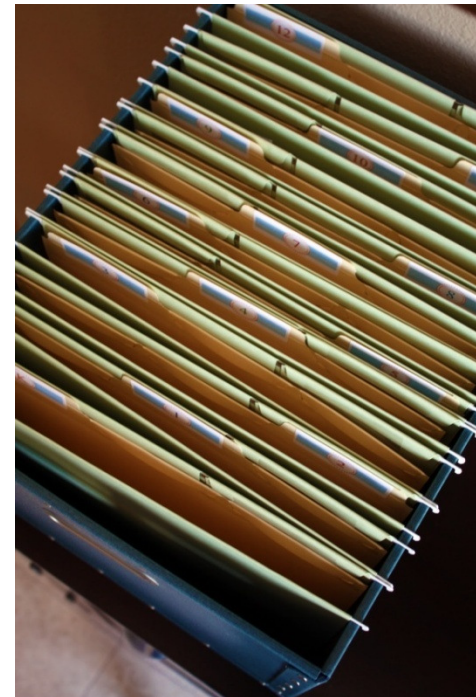


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# Get Organized! *continued*

## Filing and recordkeeping

- Master information document
- Unique filing system
- Hey, do I need to keep that?



## Get Organized! *continued*

### The paper purge—items you can toss

- ATM receipts, deposit slips, credit card receipts
- Expired insurance policies
- Old 401(k) statements
- Paycheck stubs
- Tax returns older than seven years



# Spending and Budgeting

## Why budgets fail

- Too cumbersome
- Waste of time
- Incomplete records
- Too restrictive
- “I don’t want to know”
- It’s just not fun



# Spending and Budgeting *continued*

## Reasons to prepare a budget

- Use as a planning tool
- Use as a yardstick to measure progress



# Spending and Budgeting *continued*

## The 60% Solution

- A budgeting alternative
- More sustainable
- Leads to better spending awareness
- Can be financially liberating

# Spending and Budgeting *continued*

## The 60% Solution *continued*

- 60% of your gross income is dedicated to committed expenses
  - Basic food and clothing needs
  - Essential household expenses
  - Insurance premiums
  - Charitable contributions
  - All bills, including nonessentials such as cable TV and Internet service
  - **All** of your taxes

# Spending and Budgeting *continued*

## The 60% Solution *continued*

- 40% of your gross income is divided equally into four categories:
  1. Retirement savings
  2. Long-term savings
  3. Short-term savings for irregular expenses
  4. Fun money
- Credit card debt: Just say no!



# Mortgages and Refinancing

- Fixed rate mortgage
- Adjustable rate mortgage (ARM)
- Interest-only loan
- Which one is best for me?



# Mortgages and Refinancing *continued*

## Paying points on a mortgage

- What exactly is a point?
- When do they make sense?

It depends . . .

How long do you plan to live in

- Can you afford to pay the fee?



# Mortgages and Refinancing *continued*

## **Mortgage option #1**

- \$300,000 loan amount
- 6% interest
- 30-year term
- No points

## **Mortgage option #2**

- \$300,000 loan amount
- 5.50% interest
- 30-year term
- 1 point

# Mortgages and Refinancing *continued*

Mortgage option #1

- Monthly payment = \$1,798.65

Mortgage option #2

- Monthly payment = \$1,703.37

Difference = \$95.28 per month

Divide the difference by the cost of the point:

$$\$3,000 \div \$95 = 31$$

Breakeven point = 31 months

# Mortgages and Refinancing *continued*

## When to refinance your mortgage

- When interest rates change
- When you move from an ARM to a fixed loan
- When you shorten the term of your loan



# Mortgages and Refinancing *continued*

## Refinancing: factors to consider

- Closing costs
- Rate differential
- Projected length of ownership
- Income tax bracket



# Mortgages and Refinancing *continued*

How many months will it take to break even?

$$\begin{array}{r} \$2,250 \\ \text{Old Payment} \end{array} - \begin{array}{r} \$2,000 \\ \text{New Lower Pmt} \end{array} = \begin{array}{r} \$250 \\ \text{Monthly Savings} \end{array}$$

$$\begin{array}{r} \$4,000 \\ \text{Closing Costs} \end{array} \div \begin{array}{r} \$250 \\ \text{Monthly Savings} \end{array} = \begin{array}{r} 16 \\ \text{Number of} \\ \text{Months to} \\ \text{Break Even} \end{array}$$

# Your Credit Report

## What's in your credit report?

- Personal data
- Credit history of your accounts
- Credit inquiries
- Public records (e.g., bankruptcies, lawsuits)



# Your Credit Report *continued*

## Good idea to check annually

- [www.annualcreditreport.com](http://www.annualcreditreport.com)
- Correct any errors
- Common report errors
  - Old address
  - Incorrect social security numbers
  - “Closed” accounts listed as “open”
  - Same mortgage or loan listed twice
- What if you find an error?

# Your FICO Score

## What is a FICO score?

- Summarizes your credit risk
- Snapshot of your credit report at a given point in time
- Influences the credit that is available to you
- Higher score = more options for you

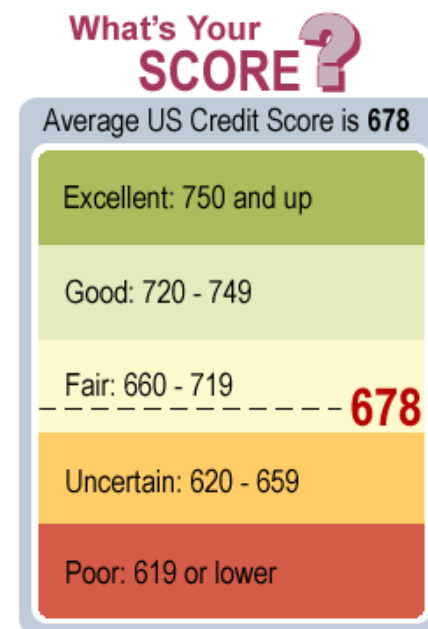


## Your FICO Score *continued*

The new “good” FICO score jumped from  
720 to 760

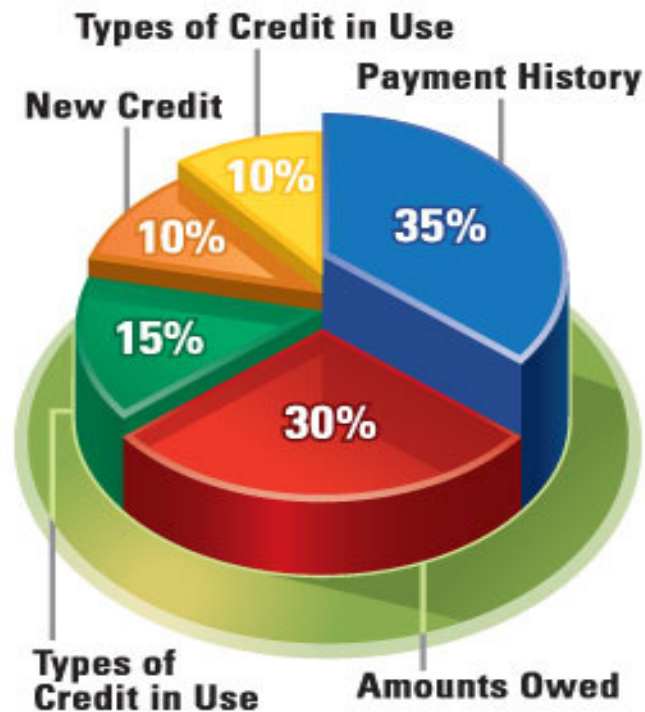
You actually have three scores:

- Experian, [www.experian.com](http://www.experian.com)
- Equifax, [www.equifax.com](http://www.equifax.com)
- TransUnion, [www.transunion.com](http://www.transunion.com)



# Your FICO Score *continued*

## How a FICO score breaks down



# Your FICO Score *continued*

## FICO score tips

- Pay bills on time
- If you've missed payments, get current and stay current
- Keep balances low on your credit cards
- Avoid opening a lot of new accounts too quickly
- Avoid opening accounts you don't need
- Have credit accounts, but use them wisely



# Your FICO Score *continued*

## How to increase your FICO score

- Build a long history of on-time payments
- Don't max out your credit lines
- Don't open or close accounts as a strategy to raise your score
- Pay off revolving debt rather than shift it from card to card
- Submit loan applications within a limited time



# Your FICO Score *continued*

## **FICO score myths**

- A credit inquiry will lower my score.
- I'll close an old unused account to raise my score.
- Credit repair companies can raise your score.
- Opening new credit cards is a good way to increase available credit.
- Your age, salary, or employment history affects the score.

# Financial Planning Myths

## Myth #1

Financial planning is for the wealthy.

**Truth: Financial planning is for anyone who wants to take control of their financial goals.**



# Financial Planning Myths *continued*

## Myth #2

I don't need life insurance until I'm old  
(or I already have enough insurance).

**Truth:** The amount of insurance you need is based on several factors, not simply age. Many people think they have adequate coverage but may not.

# Financial Planning Myths *continued*

## Myth #3

**I can't afford professional advice.**

**Truth: The cost to your goals and your emotions may outweigh the cost of professional advice.**

# Helpful Websites

- [www.finance.cch.com](http://www.finance.cch.com)
- [www.mint.com](http://www.mint.com) – budgeting info
- [www.dinkytown.com](http://www.dinkytown.com) – financial calculators
- [www.bankrate.com](http://www.bankrate.com) – bank lending rates
- [www.annualcreditreport.com](http://www.annualcreditreport.com) – credit reporting info
- [www.AARP.com](http://www.AARP.com) – consumer information

# You Don't Have to Go It Alone

- Taking control does not mean you have to uncover all of the solutions on your own.
- A financial professional can assist you with:
  - Goal definition
  - A written financial plan
  - Financial planning for
    - Estate plan coordination
    - Retirement income planning
    - Charitable giving
    - Risk management
    - And . . . everything else!
- Proactive planning = Less anxiety

Questions?