LOCKER FINANCIAL SERVICES, LLC

FEE ONLY FINANCIAL PLANNING

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How Much Do You Need to Save for College?

The ever-rising cost of college is common knowledge. Depending on the school a student chooses, the cost of tuition and room and board for an undergraduate degree can easily exceed six figures. With costs so high, many parents are simply overwhelmed. Saving enough to cover all of a child's college education expenses may seem like an impossible goal, so many parents don't get started. Or if they do save, they don't save enough.

If you want to help your children pay for college costs, you need a clear savings strategy. Below are some simple guidelines for determining how much you really need to save.

Estimate How Much College Will Cost

According to data from the College Board, a year of tuition, room and board at a public institution costs $18,943 in the 2014–15 academic year and $42,419 at a private, nonprofit institution. Assuming future increases of 3% annually, that means in 18 years, a year of college will cost more than $32,000 at a public school and roughly $72,000 at a private school.

Those estimates are staggering; however, it's possible that college costs will level off or increases won't be quite so steep. But in any case, the young children of today will certainly face much higher college costs than students do currently.

Why does all this matter? Because you need to get a sense of what it might actually cost for your child to attend college. If you have a baby who was born this year and hope to send them to a private four-year college, you'd need to save about $288,000 to cover all the costs.

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Bonds and Interest Rate Changes

With interest rates at such low levels, you might be wondering what could happen to your bond portfolio if interest rates rise. Basically, interest rate changes affect bond prices as follows:

✔ **Interest rates and bond prices move in opposite directions.** The price of a bond will decrease in value when interest rates rise and increase in value when interest rates fall. The price of an existing bond changes to provide the same return as an equivalent, newly issued bond. Since you'll receive the full principal value at maturity, holding a bond until maturity eliminates the impact of interest rate changes.

✔ **Interest rate changes have a more dramatic effect on bonds with longer maturities.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, their prices must change more to compensate for those interest rate changes.

✔ **Bond price changes are less significant for bonds with higher coupon rates.** Bonds with coupon interest rates near or above current interest rates will experience the least amount of price fluctuation. ❍❍❍

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How Much?

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Decide How Much You Want to Save

Once you have an idea of how much your children's college might cost, you can set realistic savings targets. Say you want to be able to cover 80% of the cost at a four-year, private college for your child, with the expectation that your child will either obtain grants or scholarships or take out loans to pay the remaining portion. That means a savings goal of $230,400 at the end of 18 years. To reach that target, you'd need to set aside about $595 a month, assuming annual returns of 6%. If you want to cover 80% of the costs of a four-year education at a public college (estimated at $128,000), you'd need to save $102,400. To reach that goal, you'd need to save about $264 a month, assuming annual returns of 6%.

If your initial savings estimates are high, consider tweaking your goals. Meeting 80% of your child's estimated college costs may be unreachable, but 70% may be a more achievable goal. Also, consider whether there are other sources you can tap to boost your savings. Grandparents may be willing to make contributions to a child's college fund. Monetary gifts your child receives for birthdays and other milestones can be added to a college fund. Finally, don't count out the possibility of financial aid — in the 2011–12 school year, 85% of first-time undergraduates obtained some amount of financial aid, according to the National Center for Education Statistics.

Create a Plan

The estimates above are just that — estimates. Unfortunately, many parents have little idea how to get started saving. Placing funds in a low-interest savings account reduces risk, but means you'll have to save more. A 529 college savings plan, which offers tax advantages and access to investments, could be a better way to reach your goals.

To create your own college savings plan, you'll need to carefully think about your family and your situation. Please call if you'd like to discuss this topic in more detail. ❍❍❍

7 Ways to Pay Less for College

With the cost of college steadily rising, students and their parents are looking for ways to ease the financial burden. Fortunately, there are ways to reduce college expenses.

1. Take college-credit courses in high school. Pack your child's high school schedule with advanced placement classes so that they can start earning college credits now. Students who do well on AP exams may be able to skip general education requirements. Some high schools also offer dual-credit courses, allowing students to earn college credit.

2. Apply for aid. Always apply for financial aid, even if you think you might not qualify. Even if you make a lot of money, your child may still be granted some assistance, depending on your family circumstances. And remember some assets (like those in retirement plans) aren't counted when determining federal student aid.

3. Start at a community college. Tuition at two-year community colleges is more affordable than at four-year private and public universities. Many students can save money by beginning their college education at these schools and then transferring to a four-year institution to complete their degree. Community college may also be a good option for students who are not sure whether college is right for them or those who are not sure what they want to study. However, if your child is considering this option, make sure you understand how credits transfer.

4. Stay close to home. Heading halfway across the country for college is going to be expensive. If your child stays closer to home for school, they'll spend less on travel and may even be able to live with you, cutting costs even further. Plus, in-state public universities and community colleges are typically cheaper than their out-of-state counterparts.

5. Get a job. College is hard work, but many students benefit from working at least a few hours a week while in school. Consider having your child rely on their part-time job, rather than you, for spending money. Students may also want to seek out jobs at companies that help pay an employee's college costs.

6. Look for scholarships. Scholarships aren't just for top athletes and those with perfect SAT scores. There's money out there for all kinds of students, including those belonging to certain ethnic or religious groups, pursuing certain majors, or attending certain schools.

7. Choose a school that charges no or minimal tuition. While admission to these schools is competitive, they are worth exploring, especially if you feel college is financially out of reach. The U.S. federal service academies charge no tuition in exchange for a service commitment. A number of work colleges allow students to attend for free or a nominal cost in exchange for working on campus. However, keep in mind that despite free or discounted tuition, students may still be responsible for room, board, and other fees. ❍❍❍

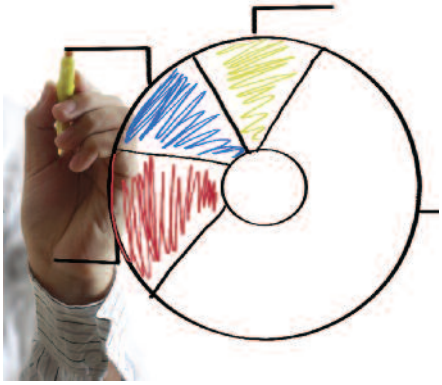
Bond Strategies for Varying Goals

The strategies used for bond investing will depend on the financial objectives you are pursuing. Consider these financial objectives and bond strategies:

✔ **Earning interest while preserving principal.** This is the most typical role for bonds and is usually accomplished with a buy-and-hold strategy. With this strategy, you purchase a bond and hold it to maturity, looking for the highest return potential for a given time frame within a comfortable risk level. By holding the bond to maturity, you don't have to worry about interest rate changes.

✔ **Maximizing income.** Since bonds with longer maturities typically have higher interest rates, this strategy commonly involves investing in longer-term bonds. Interest rate changes will have a bigger effect on a longer-term bond's price because long-term bonds have a longer stream of interest payments that won't match current interest rates. Someone looking to maximize income will also be more likely to sell a bond before maturity to lock in capital gains. Another strategy to help achieve this objective is to invest in high-yield bonds, which are bonds with lower credit ratings.

✔ **Managing interest rate risk.** One of the most significant bond risks is interest rate risk, or the risk that interest rate increases will cause a decrease in your bond's price. Bond ladders can help manage this risk. A bond ladder is a portfolio of bonds of similar amounts maturing in several different years. When one of the bonds matures, the principal is reinvested in another bond at the bond ladder's longest maturity. By spreading out maturity dates, you lessen the impact of interest rate changes. Holding the bond to maturity prevents interest rate changes from resulting in a loss when you sell the bond. Since these bonds will mature every year or so, your principal is reinvested over a period of time instead of in one lump sum. But the main advantage is you don't continue to hold only short-term bonds while you wait for interest rates to peak, an event that is difficult to predict.



✔ **Help reduce the volatility of stock investments.** The advantage of including both stocks and bonds in your portfolio is that when one category is declining, the other category will hopefully help offset this decline. One way to assess the percentage of bonds to include in your portfolio is to look at how holding varying percentages of stocks and bonds would impact your average return.

✔ **Investing for a specific future goal.** Because bonds have a definite maturity date, you can select maturity dates to coincide with when you need your principal. You might want to consider zero-coupon bonds for this purpose. Zero-coupon bonds are issued with a deep discount from face value and do not pay interest during the bond's life. The return results from the bond's price increasing gradually from the discounted value to face value, which is reached at maturity. The longer a zero-coupon bond has until maturity, the greater its price discount will be. Since zeros lock in a fixed reinvestment rate of return, they are affected more drastically by interest rate changes. Even though you do not receive any interest income until the zero-coupon bond matures, you are taxed on the yearly growth in the zero's value (called accretion).

✔ **Recognizing a loss for tax purposes.** A bond swap, which is simply the sale of one bond and the purchase of another, can help achieve this objective without changing the basic composition of your bond portfolio. In essence, you sell a bond with a current market value less than your purchase price to realize a loss and deduct it on your tax return. You then use the proceeds to purchase similar bonds. The end result is that you still own a comparable bond, but you also can claim a tax loss. Review the cost of the swap before executing the transactions to ensure costs don't offset most of your expected tax savings. Make sure to comply with the wash-sale rules or your loss won't be deductible.

✔ **Reducing income taxes.** One strategy would be to invest in municipal securities, since municipal bond interest is generally exempt from federal, and sometimes state and local, income taxes. Your marginal tax bracket is a major factor when deciding whether to include municipal bonds in your portfolio. Thus, you should compare a muni bond's yield to the after-tax yield of a comparable taxable bond. To do that, calculate the muni bond's taxable equivalent yield. If you're not investing in a municipal bond issued in your resident state, the calculation is: the taxable equivalent yield equals the tax-exempt interest rate, divided by one, minus your marginal tax bracket.

Please call if you'd like help developing bond strategies to pursue your financial objectives. ❍❍❍

Things to Consider When Relocating

Major life changes often mean changes in your living situation, and retirement is no exception. Whether you plan to stay put in your current home or want to retire to an exotic location, there are some issues you'll need to consider.

If you're thinking about staying put… Like many retirees, you don't plan to relocate in retirement. If you've lived in a home for awhile, you probably have a good idea of what it's going to cost to continue to live there, an important part of retirement planning. But there are some challenges that could come with staying in your current home. If you raised a family, your home may be bigger than you really need. Maintenance costs and taxes may exceed what you really need to spend. Plus, there's the issue of accessibility. You may need to take steps to ensure that's possible.

If you're thinking of buying a second home… Dreaming of life in the sun? If this is your plan, make sure your finances can handle it. You'll need to carry the cost of owning and maintaining two properties. Plus, there are travel expenses, which can add up quickly. You'll also need to make sure that you have access to health care, banks, and other essential amenities in your new location.

If you're thinking of moving to another state permanently… Relocating in retirement can mean an exciting adventure, but you need to be prepared. Consider taxes and the cost of living before you pack up. Will you have access to good healthcare? Will you be able to build a new social network? Will you be too far away from family members?

If you're thinking of retiring abroad… A desire to experience new cultures along with the possibility of a lower cost of living inspire many to move to exotic retirement locales. If moving abroad is a possibility, you'll need to consider some of the same issues as you would if you were moving to another state. But there are additional issues. Taxes on U.S. citizens abroad can be a stumbling block. Make sure you understand the potential challenges of life in a foreign country as well. Health care may not be up to the standards you're used to. Plus, Medicare won't cover care abroad. You'll also need to be prepared for other lifestyle differences, from the type of food that is available to different laws about setting up bank accounts. ❍❍❍

Why Do You Need Bonds?

Why should you consider bonds for your portfolio? The primary reasons include:

✔ **Bonds add diversification to your portfolio.** One strategy to help counter the effects of stock market volatility is to add investments to your portfolio that aren't highly correlated with the stock market. Historically, stocks have a low positive correlation with corporate and government bonds.

✔ **Bonds offer fixed, periodic interest payments and the return of your principal at maturity.** Thus, even in the event of a significant market decline, you receive some return in the form of interest payments, and you'll receive your principal at maturity.

✔ **Bonds are often better suited to short- and medium-term financial goals.** If you need your money in a few years, you may not want to keep those funds in stocks, since a major stock market decline could occur.

How much you should allocate to bonds will depend on your circumstances; but over time, that percentage is likely to change. Please call if you'd like to discuss bonds and your portfolio. ❍❍❍

Financial Thoughts

In a recent Gallup poll, 34% of those with private insurance say they are putting off medical treatment due to the price, primarily out-of-pocket costs. Since 2006, the average deductible for Americans who get single health care coverage through employers has more than doubled (Source: *Money*, January/February 2015).

When asked what they believe the best long-term investment is, 30% of Americans said real estate, 24% said gold, 24% said stocks, 14% said savings accounts/CDs, and 6% said bonds (Source: *Money*, January/February 2015).

In a recent survey asking what makes retirees happiest, 81% said good health, 58% said financial security, 36% said friends and family, and 20% said having a purpose (Source: *Money*, November 2014).

Approximately 37% of people still live in their hometown (Source: National Association of Realtors, 2014).

Approximately 10% of baby boomers never expect to retire, while 39% say they will retire at age 66 or older, 24% say age 65, and 27% say age 64 or younger (Source: *The Wall Street Journal*, October 13, 2014). ❍❍❍