LOCKER FINANCIAL SERVICES, LLC
FEE ONLY FINANCIAL PLANNING

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LAUREN LOCKER
Certified Financial Planner
Registered Investment Advisor

50 East Main Street, Suite 5
Little Falls, NJ 07424
973-256-2555
E-mail: Lauren@Lockerfinancial.com

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The Psychology of Saving

Saving money sounds simple, and in many ways it is. You simply set aside a portion of what you earn on a regular basis and watch your money grow. As a result, you're more prepared for emergencies, feel more financially stable, and are better able to achieve the things you most want. But in reality, saving is a little more complicated. Sometimes, our own minds seem to work against us when it comes to setting aside some of the money we earn. That's why a basic understanding of the psychology of saving can help you overcome roadblocks and get closer to your goals.

Why It's Hard to Save

What is one of the biggest obstacles most people face when it comes to saving? We tend to prefer the certainty and immediate gratification of short-term rewards over the potentially greater — yet perhaps more uncertain — benefits of longer-term rewards. For example, one study found that most adults would prefer to have $50 today rather than $100 two years from now.

Part of the difficulty people face with saving for long-term goals is that people may tend to think of their future selves as different or separate from their current selves. That disconnect can make it hard to prioritize saving for the future. Researchers studying this issue looked at whether encouraging people to think of saving for retirement in terms of a social responsibility to their future self rather than in terms of their basic self-interest would lead them to save more. The study found that the former appeal led to higher savings rates. In a related vein, another group of researchers

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Consider These Factors before Switching Jobs

When considering a job switch, it's tempting to just look at the difference in salary between the two positions. But before deciding whether to change jobs, you should consider many factors, including:

- **401(k) plan** — 401(k) plans are becoming increasingly important to help fund retirement, so you should thoroughly review each plan before making a job switch.
- **Health insurance** — How much of your health insurance premium do you pay at each employer? How does the coverage compare? What out-of-pocket expenses are you likely to incur?
- **Other fringe benefits** — Thoroughly compare the fringe benefit package at each employer, looking at vacation days, sick days, life insurance, disability insurance, dental and optical insurance.
- **Commuting costs** — How far is each job from your residence? Will there be additional commuting costs involved? Will you have to spend additional time away from your family commuting?
- **Advancement opportunities** — While this is difficult to quantify, what are the advancement possibilities at each job? ❍❍❍

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The Psychology

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found that seeing pictures of their future selves encouraged people to save more.

In fact, there are number of studies that suggest changing our mentality — either about the future or about saving in general — might allow us to set aside more money. A recent study found that people who adopted a cyclical mindset to saving focused on making saving a routine in the short term saved more than people who set more ambitious longer-term goals. Those with a traditional linear mindset saved about $140 over two weeks, while those with a cyclical mindset saved $223 over the same time period. Overall, the evidence seems to suggest that if we can change the way we think about the future — and our future selves — we may be able to boost our savings rates.

The Psychological Advantage of Saving

Once you commit to savings, there's a good chance that you'll see a psychological boost from doing so. A 2013 survey by Ally Bank found that 38% of people with a savings account reported being extremely happy, compared to only 29% of people who didn't have a savings account. That same survey found that 82% of people reported that saving made them feel independent. Those feelings of success, well-being, and independence may in turn lead to even more saving. In fact, feeling powerful and having high self-esteem can lead people to save more, perhaps because increasing their net worth and financial stability helps people maintain their powerful feelings.

There might even be a formula for spending and saving that could lead to more happiness. Ryan Howell, a professor of psychology at San Francisco State University, found that happy people tended to demonstrate a particular pattern of spending and saving, earmarking 25% of their money for savings and investments, allocating 12% to charitable giving or gifts to others, and spending about 40% on life experiences that they considered meaningful.

While our mental quirks might sometimes make saving difficult, being aware of the obstacles our mind creates can help us find our way around them. And in turn, that may lead to greater savings and increased happiness overall. ❍❍❍

Bond Investing Tips

Consider the following tips if bonds are part of your investment portfolio:

✔ **Determine your objectives before investing.** Decide how much of your portfolio you want invested in bonds.

✔ **Diversify your bond holdings among different bond types.** Consider government, corporate, and municipal bonds, as well as different industries, credit ratings, and maturities.

✔ **Understand the risks that affect bonds.** The most significant risk is interest rate risk. When interest rates rise, bond values fall, while values rise when interest rates decline. Other risks include default risk, or the possibility the issuer will redeem the bond before maturity; and inflation risk, or the possibility that inflation will outpace the bond's return.

✔ **Choose bond maturity dates carefully.** When you'll need your principal is a major factor, but the current interest rate environment may also affect your decision. Rather than investing in one maturity, you may want to stagger or ladder the maturity dates in your portfolio.

✔ **Follow interest rate trends.** At a minimum, follow the prime rate, Treasury bill rates, and Treasury bond rates. Understand the significance of the yield curve and track its pattern over time. By monitoring current interest rate levels, you will be able to evaluate the appropriateness of an interest rate for a specific security.

✔ **Compare interest rates for specific bonds before investing.** Interest rates can vary substantially among different bond types and among bonds with different maturities or credit ratings.

✔ **Research a bond before purchase.** Review the credit quality, coupon rate, call provisions, and other significant factors. Determine whether the bond is appropriate for you in terms of risk, return, and maturity date.

✔ **Consider the tax aspects.** By comparing the after-tax rate of return for various types of bonds, you may be able to increase your return. Depending on the bond, the interest income may be fully taxable or exempt from federal and/or state income taxes.

✔ **Review your bond holdings periodically.** Evaluate the credit ratings of all your bonds at least annually to ensure the quality hasn't deteriorated. Also, ensure your holdings are still consistent with your overall investment objectives and asset allocation plan.

✔ **Call for assistance with your bond holdings.** You should use carefully designed strategies to make bond decisions. Please call if you need help. ❍❍❍

10 Ways to Boost Your Savings

By embracing some simple lifestyle changes or taking full advantage of tax perks and other savings incentives, you can easily boost the amount of cash you save. The result? You'll be more financially secure and better able to reach the goals you have for yourself and your family. Here are some ideas to get you started.

✔ **Take advantage of savings perks:** If you contribute pretax earnings to a 401(k) plan or IRA, you're saving money beyond your actual contribution amounts. Say your monthly gross pay is $5,000 per month. You currently don't contribute to a 401(k) plan. You decide to start saving 3% each month (or $150) in your employer's 401(k) plan. This $150 comes out of your paycheck pretax, which means that even though you're saving $150, your paycheck only shrinks by $112 — in other words, you've saved $38 a month on taxes, or $456/year. Another way to save? Make sure you're contributing enough to get your employer match, since this is a great way to increase your savings without actually shrinking your take-home pay.

✔ **Get your benefits:** Your employer may offer benefits beyond a 401(k) plan that could save you money. Flexible spending accounts are common benefits that allow you to set aside pretax income for out-of-pocket medical expenses. Some employers even offer discounts on gym memberships or other services. Take the money you save by participating in these programs and use it to boost your retirement or emergency savings.

✔ **Cut recurring expenses:** Monthly subscription plans, streaming entertainment services, gym memberships you don't use — these regular costs can add up. While some may be worthwhile, trimming the fat in the area of recurring expenses can help you save more. For example, take your cell phone bill. Could switching to a different plan save you money? Do you need the premium cable package? How often to you listen to satellite radio? Keep what you actually use and drop the things you don't use.

✔ **Buy generic:** Do you always buy the name-brand version of a product? If so, you might be wasting money. In many cases, the generic version is just as good — if not identical to — the pricey, branded version. Take it from the experts: a recent survey found that chefs favor generic versions of baking mixes, sugar, and tea; while doctors were happy with generic versions of over-the-counters medicines like aspirin and ibuprofen.

✔ **Make it automatic:** Not sure where your money goes each month? Automate your savings so you don't have to think about setting aside extra cash. Chances are you won't even miss that money.

✔ **Be generous:** If you itemize your taxes, make sure you're keeping track of all charitable donations — from checks you write to the value of that box of gently used clothes you just dropped off at Goodwill. You can deduct the contributions you made to eligible charities come tax time, allowing you to save (or give) a bit more.

✔ **Cut one habit:** Do you indulge in daily soda or an expensive coffee drink? Cut the habit (or, if that's too hard, limit it to two or three times a week). Set aside the money you would have spent in a jar and watch your savings grow.

✔ **Repair, don't replace:** It's easy to toss a slightly worn or damaged item and buy a new one to replace it. But many of the items we throw out can actually be repaired. Find a skilled shoe repair person, quality tailor, experienced upholsterer and furniture repair person, and other professionals to spruce up items that need a bit of repair. By purchasing quality items and taking good care of them, you'll likely save yourself money in the end.

✔ **Use coupons:** Clipping coupons may seem distinctly old-school. Fortunately, you can now take advantage of coupon savings without having to spend an entire Sunday morning sorting through newspaper inserts. When shopping online, always do a quick search for online promo codes and coupons before hitting buy. Or sign up for your favorite grocery store's rewards program and enjoy seamless savings.

✔ **Review your insurance premiums:** Raising deductibles or bundling policies could save you money. Also, make sure you actually need the insurance you have — cell phone insurance and warranties are often a waste of money. Finally, make sure you're getting all the discounts you qualify for, like car insurance premium reductions for being a safe driver or homeowners insurance discounts for having an alarm system.

Looking for more ways to boost the amount of money you save? Please call for help analyzing your budget and identifying ways to cut your expenses and save more of what you earn. ❍❍❍

Distributing Your Estate to Grown Children

Even though your children may now be grown, they are probably still the center of your estate plan. Just because they are adults doesn't mean you have to leave their entire inheritance to them outright. Consider these factors first:

✔ **Do you want to distribute your estate gradually?** If substantial assets are involved, you may want to set up trusts to distribute your assets gradually, such as in thirds when each child reaches age 25, 30, and 35. You can always give the trustee power to make early distributions for specific items.

✔ **Have you selected a trustee carefully?** If trusts are involved, you want a trustee who is impartial and will deal fairly with all your children. Think twice before naming one of your children as trustee. One sibling in a position to decide what happens to other siblings' inheritances can cause disagreements among siblings.

✔ **Have you thought about the consequences of a child divorcing?** You probably don't want a portion of your assets distributed to an ex-daughter-in-law or ex-son-in-law, so special provisions may need to be added to trusts.

✔ **Have you considered how assets will be distributed among children?** Perhaps one child is better off financially than your other children. Do you divide your estate equally or give less to the financially well-off child? Children often feel a right to an equal share of their parents' estate, even if they have a substantial estate of their own.

✔ **Do you need to make special distributions to even out inheritances?** Perhaps you have paid all college costs for some children, while other children have not attended college yet. You may want to ensure that all children receive a college education, and then distribute the rest of your estate equally.

✔ **Should you coordinate your estate plan with your children's estate plans?** If your children have substantial estates of their own, it may not make sense to leave additional assets to them. They may prefer those assets go directly to their children, helping to minimize family estate taxes.

✔ **Have you explained the need for estate planning to your children?** Especially if you are leaving a substantial estate to your children, they may need to plan their own estates. You don't need to dictate what they should do with their estates, but gently remind them why they need an estate plan. ❍❍❍

Life Insurance Tips

✔ Don't rely on rules of thumb when deciding how much life insurance you need. Go through a detailed analysis of your needs.

✔ Evaluate who should own the insurance policy, which determines whether the proceeds will be subject to estate taxes.

✔ Select beneficiaries with care, being sure to name contingent or back-up beneficiaries.

✔ Before deciding on a specific type of life insurance policy, review all available options.

✔ Look for ways to reduce premiums by meeting certain criteria.

✔ Don't purchase cash-value insurance unless you plan to own the policy for at least 10 years.

✔ Check the financial rating of your insurance company periodically to make sure its financial status has not weakened.

✔ Don't replace an existing life insurance policy without first evaluating the consequences of surrendering the policy.

✔ Review your life insurance polices every couple of years. This review gives you a chance to evaluate the policy's performance and whether your needs and/or circumstances have changed. ❍❍❍

Financial Thoughts

Filing just a single claim after an automobile accident can increase your auto insurance premium by an average of 41%. These rate increases usually take effect only if the accident is your fault, ranging from a high of 76% in Massachusetts to a low of 22% in Maryland. Two accident claims could double premiums at renewal time (Source: Insurance-Quotes.com, 2015).

In a recent survey, 53% of respondents said they wanted to own their own business someday, 23% said they were considering it, 17% said they already owned a business, and 7% had no interest in owning their own business (Source: *Money*, March 2015).

The top challenges faced by business owners are economic uncertainty, cost of insurance, and inability to access capital (Source: *Money*, March 2015).

Approximately 54% of companies offer phased retirement to at least some workers, while only 18% of companies offer phased retirement to all or most workers (Source: Transamerica Center for Retirement Studies, 2014).

Approximately 90% of workers with a workplace plan have saved for retirement, compared to 20% of workers without a workplace plan (Source: Employee Benefit Research Institute, 2014). ❍❍❍