LOCKER FINANCIAL SERVICES, LLC

FEE ONLY FINANCIAL PLANNING

LAUREN LOCKER
CERTIFIED FINANCIAL PLANNER™ practitioner
Registered Investment Advisor
3 Claridge Dr., Suite 2 • Verona, NJ 07044
973-256-2555 • Lauren@lockerfinancial.com

ANDREW CHAN
CERTIFIED FINANCIAL PLANNER™ practitioner
Certified Investment Management Analyst™ practitioner
550 Cochituate Rd., Suite 25, East Wing • Framingham, MA 01701
508-663-4878 • Andrew@lockerfinancial.com

SPRING 2021

Leaving a Legacy

Many of us want to do our part to leave the world a better place. Below are five different ways you can leave a financial legacy.

1. Give gifts in your lifetime. If you have the financial freedom to do so, making financial gifts while you are still alive is a great way to leave a legacy. Money you donate to qualified charitable organizations can be deducted from your taxes, saving you money while also helping you support a good cause. If you want to leave a family legacy, consider giving gifts to loved ones while you are living, like helping pay for your grandchild's college education. Just make sure you're aware of annual limits on what you can give to individuals without triggering gift tax ($15,000 per person in 2021).

2. Make a bequest in a will. Many people use their will to make philanthropic bequests, leaving funds to their favorite charity, alma mater, or church. For people who have money to give, recognizing an organization in their will is a relatively easy way to leave a legacy. Bequests in a will don't require any additional planning and are exempt from estate tax, provided the recipient is a qualified charitable organization. However, if you plan to make a substantial bequest to a charity, you may want to inform them of your plans in advance. This is particularly important if you plan to donate physical property, like real estate or artwork, as not all charities will want or be able to accept such donations, or if you plan to place restrictions on how the gift is used.

3. Create a charitable remainder trust. If you would like to make a substantial gift to a charity but also want to provide for your heirs or continue to receive income during your lifetime, a charitable remainder trust (CRT) may be an option. Here's how it works: You

Continued on page 2

Know When to Exit

Everyone purchases investments with the expectation that the price will go up, earning profits on that investment. Unfortunately, that doesn't always happen, making it necessary to develop an exit strategy. It can be difficult to decide when to sell regardless of whether your investment is increasing or decreasing, but more damage can be done to your portfolio's returns when the investment is decreasing. Investors hate selling investments at a loss, which makes it emotionally difficult to do.

Write down your reasons for purchasing an investment and when you will sell. That could include both upside and downside sell criteria. As an investment is declining, it is common to come up with excuses to delay selling. Then, the further the investment declines, the more likely you will want to wait.

Instead, set a firm sell guideline, which will ensure that you don't incur substantial losses. For instance, you might sell an investment when it declines by 5% of your purchase price. You have effectively put a cap on your losses. ❍❍❍

Copyright © 2021. Some articles in this newsletter were prepared by Integrated Concepts, a separate, nonaffiliated business entity. This newsletter intends to offer factual and up-to-date information on the subjects discussed but should not be regarded as a complete analysis of these subjects. Professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.

FR2020-1127-0090

Leaving a Legacy

Continued from page 1

transfer property to the trust (and get a tax deduction at the time of the transfer), and you or your heirs receive income from the trust for a specified period of time. Then, when that period ends, the remaining assets go to the charity of your choice. A word of caution: CRTs are irrevocable, which means once you've made this decision, you can't reverse it.

4. Set up a donor-advised fund. Know that you want to leave money to a charity, but not ready to hand it over just yet? Consider setting up a donor-advised fund. A donor-advised fund allows you to make contributions to a fund that is earmarked for charity and claim the associated tax deduction in the year you contribute the funds. You continue to make more contributions to the fund, which are invested and grow free of tax. Then, when you are ready, you can choose a charity to receive all or some of the accumulated assets. It's a great way to earmark funds for charity now while also accumulating a more substantial amount of money to leave as a legacy.

5. Fund a scholarship. Endowing a scholarship is a great way to make a difference in the life of a talented student. Here's how it typically works: You give a certain amount of money to the school of your choice, which earmarks it to fund scholarships, often for certain types of students (e.g., female math majors, former foster children, or people suffering from a certain disease). Other scholarships are established through community foundations. A seed gift of $25,000 or $50,000 may be enough to get started. Be aware, however, that while you may be able to have a say in selection criteria for the scholarship, there's a good chance you won't be able to select the recipient yourself. If you want to do that, you'll need to distribute the money in another way, perhaps by setting up your own nonprofit organization.

6. Start a foundation. Starting a family foundation is appealing to many, especially those who like the idea of having greater control over how their money is used as well as the prestige that comes with running a foundation. Well-managed private foundations can also endure for many generations after you're gone. But you'll need substantial assets to make setting up a foundation worth it. Plus, foundations are complicated and expensive to set up and administer. But, if you are committed to the idea of giving back, and especially if you want to keep the entire family involved in giving (a concern for many wealthy families), a private foundation could be the way to go.

Curious about steps you can take to leave a meaningful legacy? Please call to discuss this topic in more detail. ❍❍❍

How Much Should You Save in Your 401(k) Plan?

To make sure you're on track for retirement, you should have an idea of how much you need to set aside to reach your retirement goal.

Know Your Limits — Before you come up with an annual savings target, it's important to understand how much you're allowed to contribute to a 401(k) plan. In 2021, workers younger than 50 can save $19,500 in a 401(k), 403(b), or similar plan, while those age 50 and older can save $26,000 annually, an extra $6,500 per year.

Contribution limits usually go up slightly every year; if you're an aggressive saver, you'll also want to pay attention to that and adjust accordingly.

At a Minimum, Get Your Match — The first rule of 401(k) plans is to save enough to get your full employer match. You've probably heard it before, but not contributing enough to get your employer's matching contributions is like leaving free money on the table. Even if you're not impressed with your company's 401(k) plan and would prefer to save in some other way, it still makes sense to at least get that free money.

But How Much Do I Really Need? — So you know how much the government will let you save and that you should be contributing enough to get your employer match. But how much should you be setting aside to prepare yourself for a comfortable retirement? That's the ultimate question.

Unfortunately, there's no magic number because every individual situation is different. People have different tolerances for risk, market performance varies over time, and everyone has their own idea of an ideal retirement. That's why it's best to talk to a financial advisor who can help you determine how much you need. But in the meantime, there are a few rules of thumb that may help you get a sense of where you stand.

One guideline suggests saving a certain percentage of your salary every year for retirement. Between 10% and 15% is usually the recommended number. If you started saving when you were young, your target savings percentage is usually lower, but if you procrastinated, you're more likely to be looking at having to save 15% or even 20% of your pay to get you on track to a comfortable retirement. The good news is that your employer match counts in that number, so if your goal is to save 10% and your employer match is 5%, you only need to save 5% of your pay. ❍❍❍

FR2020-1127-0090

Money Personalities and Saving

Everyone approaches their finances differently, but there are common mistakes that certain money personalities make. The following highlights five different money personalities, the mistakes they make, and how they can improve their financial picture.

Entrepreneur

Because they put all their financial resources and energy into their business, entrepreneurs may make mistakes such as cashing out their retirement plans to fund their business, holding too much debt, or even getting behind on self-employment taxes.

Entrepreneurs would be best served by developing a business plan with income and expense projections to ensure they use debt wisely to fund their business. They should also make contributions to a retirement plan annually, even if it's only a few thousand dollars. And finally, entrepreneurs should work with a tax professional to help reduce their taxes as much as possible, while making sure quarterly tax payments are made.

The Saver

This is the person who follows all the rules and does it just right. They fully fund their retirement accounts each year, don't carry much debt, and have plenty of savings in the bank for any unexpected expenses. While this money personality may get to retire early, they may want to stop and smell the roses once in a while.

The High-Income Earner

Professionals, such as doctors and lawyers, fall into two groups: savers and spenders. Those who fund a large lifestyle may find they have trouble funding their retirement because they've spent too much.

Big earners need to develop a financial plan so they understand how much money they will need to fund their retirement based on the lifestyle they want to live. They should also pay themselves first with a predetermined amount to saving, before buying nicer cars or bigger houses, as well as considering setting monthly spending limits.

I Need to Save?

This money personality spends their paycheck as soon as it hits their account, and in some cases, live beyond their means. They have no savings if an unexpected emergency comes up, and they are likely carrying too much debt. To be able to retire, this person needs a financial plan with a strict budget to help pay down debt and develop both long- and short-term savings.

Doing Fine and Enjoying Life

This person saves and spends. They want to enjoy life experiences along the way to retirement, such as vacations, maybe a boat, or a cabin. While they contribute to their 401(k) plan, they may not have a financial plan that includes short-term financial goals and how much they need to save for retirement.

While it is great that this money personality saves, they need to ensure that their spending isn't outpacing their savings. By developing a solid financial plan, this money personality can create a more balanced approach to saving and spending.

What's Your Money Personality?

You should determine where you fall on the spectrum of money personalities so you can develop a financial plan that suits your personality, but also helps you secure your future. Please call if you'd like to discuss this topic in more detail. ❍❍❍

Do You Really Need a Will?

Many people believe they don't need a will. But how valid are the more common reasons for not preparing a will?

Your estate is too small. Some believe that if their estate won't be subject to estate taxes (in 2021, your taxable estate must be over $11.7 million before estate taxes would be owed), there is no need for a will. However, a will's purpose is not to save estate taxes, but to:

✔ **Provide for the distribution of your assets.** Without a will or other estate-planning documents, your estate will be distributed in accordance with state law, which may or may not coincide with your desires.

✔ **Name guardians for minor children.** Without a will, the courts decide who will raise minor children when both parents die.

✔ **Select an executor for your estate.** The executor assembles and values your assets; files income, estate, and inheritance tax returns; distributes assets; and accounts for all transactions. You will typically be in a better position, based on family relationships and individual qualifications, to decide who should be named executor of your estate.

All your property is jointly owned. When one owner dies, jointly-owned property passes directly to the joint owner, regardless of provisions in a will. Also, the unlimited marital deduction allows you to leave any amount of your estate to your spouse without paying estate taxes. Thus, many married couples use joint property ownership as their sole estate planning technique. However, individuals with very large estates may save estate taxes by distributing some assets to other heirs or there may be other reasons to distribute some assets to other heirs.

A living trust will distribute your assets. Only assets actually conveyed to the living trust are controlled by the trust document. Typically a pour-over will is also needed, which places any asset not held by the trust at your death in the trust.

You expect your estate to grow significantly in the future. Some feel it is premature to plan their estate while it is being built. However, a will can be changed. In fact, you should periodically review your entire estate plan to see if changes in your personal situation, preferences, or tax laws require changes to your plan. ❍❍❍

The Financial Aspects of a Death

The emotional trauma of dealing with a loved one's death can be devastating. If you also have to handle the financial aspects, it can seem overwhelming. Following is a checklist to consider:

✔ Your most immediate concern will be to notify family and friends of the death and to make funeral arrangements.

✔ If a surviving spouse and/or minor children are involved, evaluate their means of support and determine whether care for the dependents needs to be obtained.

✔ Locate any safe deposit boxes and follow necessary procedures to have them opened.

✔ If the deceased was employed, contact his/her employer to start the process of collecting any outstanding pay, life insurance proceeds, or other benefits.

✔ Locate important documents, including wills, trusts, deeds, investment records, insurance policies, business and partnership arrangements, and other evidence of assets and liabilities.

✔ Meet with an attorney to discuss the deceased's estate matters. ❍❍❍

Financial Thoughts

Individuals in retirement face five risks: outliving their money (longevity risk), investment losses (market risk), unexpected health expenses (health risk), unforeseen needs of family members (family risk), and retirement benefit cuts (policy risk). A recent study found that the greatest risk is longevity risk followed by health risk. However, retirees believed that their greatest risk was market risk. Many discounted longevity risk and health risk because they believed they would not live long enough to outlive their savings or to accumulate a large amount of health costs (Source: Center for Retirement Research at Boston College, July 2020).

A recent study found that investors tend to flee volatility and chase stability, but end up with bad timing with respect to stock volatility. This leads to high exposure to stocks when volatility is high and low exposure to stocks when volatility is low, resulting in returns with higher volatility (15% to 20% over 10-year periods and 70% to 75% for 30-year periods) than buy-and-hold-returns (Source: *AAII Journal*, October 2020). ❍❍❍