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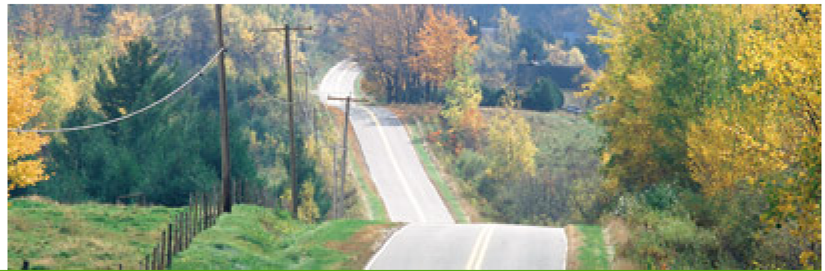

# THE FINANCIAL FORMULA

Giving You The Financial Information You Need

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Hello FF readers! Please enjoy this month's edition of The Financial Formula! Please let us know if you have any questions - thanks!


**Martin A. Federici, Jr.**
MF Advisers, Inc.
CEO
marty@mfadvisers.com
570-760-6524
Fax: 570-675-7105
91 Franklin Street
Dallas, PA 18612
http://mfadvisers.com


## In This Issue

## Kids & Money: Important Lessons Start Early in Life

To ensure that important life goals remain at the forefront of your children's -- and likely heirs' -- priorities throughout their lifetimes, incorporate the use of incentives in your estate plan.

Today many affluent families are concerned about the potentially adverse effect of wealth on younger generations. As a result, the goals that many high-net-worth parents and grandparents have set for their children or grandchildren reflect core values, an honest work ethic, and a desire to give back to the greater community.

### Walking the Talk

The skills and knowledge needed to help children achieve these goals should be developed early in life and continue well into adulthood. The following strategies can assist older family members in becoming positive financial role models for children.

**Start early** -- Parents can start talking to children about money at as young as age three. Between four and five, you can explain the importance of good spending habits, and by age six or seven, you can help children open a bank savings account. By the time children reach their mid-teens, they should start seeking after-school and summer employment.

**Support education** -- Personal finance education helps instill such pragmatic money management skills as setting a budget, balancing a checkbook, understanding the role of debit/credit cards, and developing strategies for funding college. Encourage your child's school to offer personal finance as an elective "life skills" course, send your teen to a community college/adult education class, or tap the many educational resources available online.

**Lead by example** -- Your children will learn the most valuable lessons about money from examples you set. A few simple rules: Enjoy the fruits of your labor -- but don't go overboard. Set a healthy example regarding credit card use. Pay your bills on time. Save and review your savings plan on a regular basis. Above all, be consistent.

**Use incentives** -- To ensure that important life goals remain at the forefront of your children's -- and likely heirs' -- priorities throughout their lifetimes, incorporate the use of incentives in your estate plan. What exactly is an incentive trust? It is an estate planning tool designed to reward desired behaviors or impose appropriate penalties for undesirable behaviors. It also provides a way to address the needs of beneficiaries who require special assistance. Common themes guiding incentive trusts are education, moral and family values, and business/vocational choices, as well as charitable and religious interests.

**Encourage philanthropy** -- Affluent families often use philanthropy to convey the message that their success has been the result of hard work and good fortune, and that success comes with the responsibility to give something back. If you want to ensure future generations of volunteers and donors, you must model for children various ways to give of their time, their talents, and their money. Once children understand the scope of their contributions, philanthropy often becomes a real and meaningful part of their lives.

If you are interested in developing a legacy plan that incorporates some of the ideas mentioned here, consider seeking the guidance of a financial and estate planning professional. Together you can create a plan that instills financial responsibility in children for generations to come.

This communication is not intended to be tax or legal advice and should not be treated as such. Each individual's situation is different. You should contact your tax/legal professional to discuss your personal situation.

## Too Young to Think About Investing? Think Again!

"How did it get so late so soon?" -- Dr. Seuss

Dr. Seuss's whimsical take on life has been delighting children of all ages for generations. His simple, but powerful words continue to resonate today, even in the context of planning for a financially secure future. Because when you get right down to it, the younger you are, the more you potentially have to gain by taking advantage of the time ahead of you.

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### Compounding: A Snowball Effect

The word compounding describeswhat happens when your investment earns money and this amount is reinvested and generates more earnings. The process of compounding has often been compared to the way a snowball grows as it rolls downhill. You might say that a longer investment time frame is akin to a bigger hill, because each creates conditions for greater growth potential.

And thanks to the potential role of compounding, the more you invest, the more significant the potential long-term benefit. For example, assume that two workers both earn $30,000 annually. Each invests 6% of income and receives a 3% raise each year. Investor A never increases her investment, but Investor B increases her investment by 1% of income each year until she is eventually investing 12% of income. Over the course of 30 years, each account earns an 8% average annual investment return.

The result? At the end of the 30-year period, Investor A would have $296,864, whereas Investor B would have $535,005 -- simply because she took advantage of time and gradually increased her investment amount.[1]

### Time and Compounding -- A Simple Equation

One easy way to estimate how long it may take for compounding to help double the value of an investment is to use the "rule of 72."

Here's how it works: Divide 72 by the rate of return earned by an investment. The number you end up with equals the approximate number of years it would take for the investment to double in value, assuming it continues to earn the same return. For example, an investment earning an 8% annual return would double in value in about nine years (72/8 = 9).

### Stay in It for the Long Term

Maintaining a long-term time frame may also give you the luxury of being able to tolerate short-term market volatility. Because while past performance cannot guarantee future results, it's worth noting that longer-term holding periods have often been associated with a lower likelihood of portfolio losses.

[1]*This is a hypothetical example intended for illustrative purposes only and does not represent the performance of an actual investment. Your results will vary.*

# Do You Know Who Your Beneficiaries Are?

Many investors have taken advantage of pretax contributions to their company's employer-sponsored retirement plan and/or make annual contributions to an IRA. If you participate in a qualified plan program you may be overlooking an important housekeeping issue: beneficiary designations.

An improper designation could make life difficult for your family in the event of your untimely death by putting assets out of reach of those you had hoped to provide for and possibly increasing their tax burdens. Further, if you have switched jobs, become a new parent, been divorced, or survived a spouse or even a child, your current beneficiary designations may need to be updated.

**Many IRA owners may not be aware that after their death, the primary beneficiary -- usually the surviving spouse -- may have the right to transfer part or all of the IRA assets into another account.**

## Consider the "What Ifs"

In the heat of divorce proceedings, for example, the task of revising one's beneficiary designations has been known to fall through the cracks. While a court decree that ends a marriage does terminate the provisions of a will that would otherwise leave estate proceeds to a now-former spouse, it does not automatically revise that former spouse's beneficiary status on separate documents such as employer-sponsored retirement accounts and IRAs.

Many IRA owners may not be aware that after their death, the primary beneficiary -- usually the surviving spouse -- may have the right to transfer part or all of the IRA assets into another account. Take the case of the IRA owner who has children from a previous marriage. If, after the owner's death, the surviving spouse moved those assets into his or her own IRA and named his or her biological children as beneficiaries, the original IRA owner's children could legally be shut out of any benefits.

Also keep in mind that the law requires that a spouse be the primary beneficiary of a 401(k) or a profit-sharing account unless he/she waives that right in writing. A waiver may make sense in a second marriage -- if a new spouse is already financially set or if children from a first marriage are more likely to need the money. Single people can name whomever they choose. And nonspouse beneficiaries are now eligible for a tax-free transfer to an IRA.

The IRS has also issued regulations that dramatically simplify the way certain distributions affect IRA owners and their beneficiaries. Consult your tax advisor on how these rule changes may affect your situation.

## To Simplify, Consolidate

Elsewhere, in today's workplace, it is not uncommon to switch employers every few years. If you have changed jobs and left your assets in your former employers' plans, you may want to consider moving these assets into a rollover IRA. Consolidating multiple retirement plans into a single tax-advantaged account can make it easier to track your investment performance and streamline your records, including beneficiary designations.

## Review Your Current Situation

If you are currently contributing to an employer-sponsored retirement plan and/or an IRA contact your benefits administrator -- or, in the case of the IRA, the financial institution -- and request to review your current beneficiary designations. You may want to do this with the help of your tax advisor or estate planning professional to ensure that these documents are in synch with other aspects of your estate plan. Ask your estate planner/attorney about the proper use of such terms as "per stirpes" and "per capita" as well as about the proper use of trusts to achieve certain estate planning goals. Your planning professional can help you focus on many important issues, including percentage breakdowns, especially when minor children and those with special needs are involved.

Finally, be sure to keep copies of all your designation forms in a safe place and let family members know where they can be found.

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