

MF Advisers
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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 - thank you!

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Understanding and Managing Your Credit Score

Your credit score is a number that lenders use to gauge how likely you will be to repay your debts on time. As an informed consumer, you can make yourself more attractive to lenders by taking steps to boost your credit score.

Your FICO® Score: The Standard Measure

The FICO® Score (an acronym for its creators, the Fair Isaac Corporation) is a standard gauge lenders use to measure a consumer's credit risk. According to myFICO.com, 90% of top lenders use FICO scores when making lending decisions. A typical credit score will range between 300 and 850 points. Although all lenders make decisions based on the particulars of the lending situation, generally speaking, the higher your credit score, the lower the perceived risk to the lender, the more attractive the interest rate you may be offered, and the more money you may save over time.

For instance, at current rates, a borrower with a credit score of between 760 and 850 can expect to pay a rate of 3.174% on a 30-year, \$200,000 fixed-rate mortgage, according to myFICO.com's Loan Savings Calculator. By contrast, an individual with a score of between 620 and 639 can expect a rate of 4.763%, which amounts to an extra \$183 in monthly payments and an additional \$65,797 in total interest paid over the life of the mortgage.¹

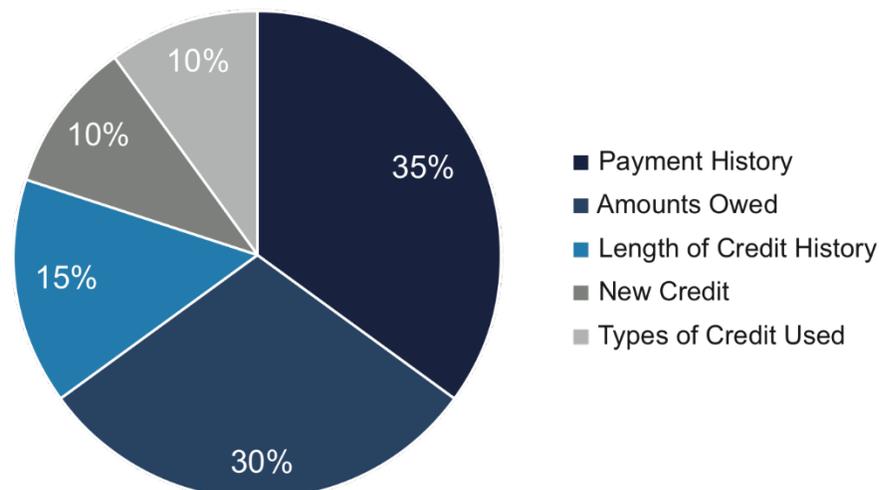
Key Factors

The three major credit reporting agencies - Equifax, Experian, and TransUnion - compile credit scores based on information provided by creditors. These agencies generate scores using a proprietary formula that assigns weightings to five main factors:

- **Payment history** (whether you have missed or been late with any credit payments). On-time payments are an important component of your credit score. Using your credit responsibly and paying bills on time are great ways to maintain a good credit score.
- **Credit utilization.** Credit utilization is defined as the total debt you have divided by the total available credit that is available to you. High credit utilization can be a warning sign of credit risk.
- **Length of credit history** (how long various accounts have been open). Credit history is a significant component of your credit score. Accordingly, the average age of your credit cards can be a strong indication of your credit history. Care should be used in keeping old accounts open and in good standing.
- **The amount of new credit on your record.** While opening one new credit card might be normal, opening several in a short span of time could be a warning sign to potential creditors that something is amiss in your financial life.
- **Mix of credit accounts.** Both the total number of credit accounts you have and the mix of credit you have will affect your credit score. A healthy mix of revolving credit cards, charge cards, installment loans and mortgages will also impact your credit score.

What's in a Score?

The percentages in the chart below reflect how important each of the five main categories is in determining how your FICO score is calculated.



Source: myFICO.com (Fair Isaac Corporation), retrieved April 2016.

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¹Source: myFICO.com. Interest rates as of October 17, 2016. The rates shown are averages based on thousands of financial lenders, conducted daily by Informa Research Services, Inc.

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Financial Capability in the United States: How Do You Stack Up?

Managing one's personal finances is a complex task that requires focus, judgment, and discipline. There are budgets to maintain, various types of debt to manage, long-term goals to plan for, savings and investments to select and oversee. And in today's uncertain economic environment, keeping all of these components on an even keel takes more than a little skill.

To measure how well Americans are coping with their financial responsibilities, the FINRA Investor Education Foundation sponsors the National Financial Capability Study (NFCS), a multi-year research project first commissioned in 2009, again in 2012, and most recently in 2015, the results of which were published in July 2016.

The NFCS focuses on four key components of financial capability: Making ends meet, planning ahead, managing financial products, and financial knowledge and decision making. Drawing on responses from more than 27,000 American adults from all 50 states and the District of Columbia, the NFCS is one of the largest and most comprehensive financial capability studies in the country.

Key Findings

On many fronts, the financial situation of Americans has improved over the past several years. For instance, when asked about their comfort level with covering expenses and paying bills, nearly half of the respondents - 48% -- said they "find it not at all difficult," compared with 40% in 2012 and 36% in 2009. Similar improved responses - 46%, 40%, and 35% respectively -- were tallied when survey participants were asked if they had set aside three months' worth of expenses in an emergency fund. While still improving, fewer numbers of respondents - 31%, 24%, and 16% -- claimed to be satisfied with their overall financial condition.¹

Demographic Breakdown

When analyzed through a demographic filter, certain groups face heightened struggles in specific areas:¹

Have been late with mortgage payments ...

Millennials (18 to 34-year olds)	29%
Generation-X (35 to 54-year olds)	16%
Baby Boomers (55+)	7%

In case of emergency, probably/certainly could not come up with \$2,000 in 30 days ...

High school education or less	45%
Some college	36%
College or more	18%

Have difficulty with medical costs ...

Women	31%
Men	24%

Debt: A Widespread Problem

Overall, debt continues to be a problem for many Americans.¹

- 40% feel they are carrying too much debt.
- 20% have unpaid medical bills.
- 47% of credit card holders carry a balance.
- 22% of credit card holders have been contacted by a collection agency in the past year

Financial Literacy: On Shaky Ground

The 2015 NFCS revealed a deterioration in general financial knowledge among survey participants over previous years. The percentage of individuals considered to have a high level of financial literacy - meaning they answered four or more questions on a five-question quiz correctly - has declined steadily since the study's inception. In 2009, 42% of participants answered at least four questions correctly. That percentage dropped to 39% in 2012 and 37% in 2015.¹

Commenting on the findings, FINRA Foundation Chairman Richard Ketchum said, "This research underscores the critical need for innovative strategies to equip consumers with the tools and education required to effectively manage their financial lives."²

For more on the study or for a state-by-state breakdown of results go to USFinancialCapability.org.

¹FINRA Investor Education Foundation, infographic, "[Financial Capability in the United States 2016](#)," July 12, 2016.

²FINRA Investor Education Foundation, news release, "[Americans' Financial Capability Growing Stronger, but Not for All Groups: FINRA Foundation Study](#)," July 12, 2016.

Not All 401(k) Plan Providers Are Created Equal

401(k) salary deferral plans are the most popular retirement plans today. Nearly every type of financial institution -- banks, insurance companies, brokerage firms -- offer 401(k) plan services.

If your organization is considering offering a 401(k) plan for the first time -- or it has a plan and you are reviewing its performance -- there are several things to consider. Here is a quick checklist.

Be sure the plan you're looking at offers flexibility as to plan design. Most service providers offer an IRS-approved prototype plan, which can save big money over an individually designed plan. But a prototype plan can be inflexible. Make sure that any prototype plan you adopt is adaptable enough to meet your organization's overall needs.

Similarly, make sure the plan offers a broad range of investment options. Nearly all 401(k) plans allow employees to choose their own investments -- usually from among several specified alternatives. The service provider you're considering likely offers its own investment options. But what if these investment choices regularly underperform similar investments? You might want to consider hiring a service provider that allows you to use outside investments for at least some of the plan's assets.

Evaluate plan fees. Be sure to evaluate and/or compare the various plan-related fees. The DOL requires disclosure of investment-related fees, plan administrative expenses, and individual participant expenses, including details of fees charged for services such as loans and investment advice.

As a result of these disclosures:

- Plan participants can determine the reasonableness of the costs they're being charged to save for retirement and compare the costs associated with different investments.
- Plan sponsors can make better decisions about the service providers they select and the investments they offer under the plan. Better employer decisions can lead to more efficient pricing and lower costs to retirement plan participants.

Look carefully at the administrative capabilities of the service provider. Some providers offer terrific investment returns or broad investment flexibility, but are lacking in administrative ability. Remember: From an employer's and an employee's perspective, the administration of a 401(k) plan is one of its most important elements.

Check around to gauge the provider's reputation for plan administration. Call some local customers of the provider for a referral. Ask, for example, if they've received late or incorrect statements. If so, find out how the provider handled the problem. Make sure that any problems were handled quickly and accurately.

Finally, find out whether the service provider helps you on a continuing basis with employee communication. Communicating the plan's features and benefits is essential to broad participation. And broad participation is essential to a successful 401(k) plan.

Most service providers will meet with employees when the plan is first set up to help "sell" the plan to them. Often, though, explaining the plan to new employees is left to you. A service provider should be available to come in from time to time and reinforce the plan's value to employees - both existing and new.

Choosing a 401(k) plan and a service provider can be difficult, but by doing your due diligence and taking your time to ask the right questions to prospective plan providers, you can choose the right plan for your organization.

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