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PLAN FOR A LIFE WELL LIVED

Spring 2019

Give an Inheritance Time to Settle

By Darren Zagarola, CFP®, CPA, PFS

The Great American Wealth Transfer is under way. Baby boomers are expected to transfer more than $30 trillion to their heirs over the next several decades. Some of you might be fortunate enough to receive an inheritance from a family member. Or you may be leaving one to a family member. Receiving an inheritance may be a blessing. But it could also be a curse — similar to winning a lottery.

Evidence suggests that many beneficiaries are ill-prepared to handle an inheritance, and one-third will squander or waste it. People will spend their inheritance on a fancy car or vacation, use it as a reason to quit a job, invest it unwisely, or give the money away to other family members. The most important thing you can do when you receive an inheritance is take your time. Take time to grieve your loss. Think before you act or spend. Do not rush into decisions that are not properly thought-out in accordance with your personal and financial goals. You may receive the inheritance in cash or investment vehicles. Let the assets sit for a time until you can evaluate your personal situation.

Once you have come to grips with your loss, figure out where you stand financially. Take time to understand what you have inherited. Are there specific rules you need to follow based on the types of assets you received? Consider how you want to honor the legacy of the account owner. How was this wealth accumulated? How would they want you to handle the assets? What values do you share with them?

Receiving an inheritance is one of the main reasons people give for seeking the help of a financial planner. Surround yourself with a sound team of experts — CFPs, CPAs, and estate planning attorneys — for professional advice about how to achieve your goals. Evaluate where you are in life. Identify your financial and personal goals, considering both short-term and long-term goals. Prepare a balance sheet listing your assets and liabilities. Prepare a budget showing your income and expenses. Set your priorities, which may include eliminating or reducing credit card debt or student loans, funding retirement, saving for college education or a new home, fulfilling charitable goals, and having fun.

Here are some points to consider for different types of inherited assets:

- **Cash and investments.** If you inherit cash or investments your options are simple: spend, save/invest or gift. Some combination of all three is a nice balance to achieve. You may inherit assets that are not appropriate for your situation. Once you have established your goals and how to achieve them, reallocate the portfolio appropriately, and set aside funds for a fun purchase or to gift to family members or charity.

(Continued on Page 4)

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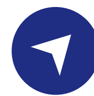

Saving for Your future (Start Early!)

By Howard Milove, CPA, PFS

We often get these questions from young clients (or their parents): When should I start saving for retirement and how much should I put away? The answers are pretty straight forward; start right away and put away as much as you can. If you can follow this simple advice you are off to a great start on the road to financial independence. Of course, this is easier said than done!

Have you ever heard the saying "pay yourself first?" By definition this means you should routinely and automatically put money into your savings before spending on anything else. Once you find your first full-time job and begin making consistent money, start saving immediately. Hopefully, your employer offers a retirement plan, such as a 401(k) or 403(b). If not, you can still take advantage of an Individual Retirement Account (IRA).

Unfortunately, most people spend to their income — meaning as you make more, you spend more. It is very difficult to cut back once you get used to a certain lifestyle. This is why you should pay yourself first. As soon as you become eligible for your retirement plan, start contributing. If you never received the money in the first place, you won't have it to spend.

Ideally, begin by putting 10% or more into your retirement plan. If you can't do this — maybe you have student loans to pay off — then at least contribute up to your employer match (assuming they have one). You don't want to pass up free money. As your salary increases, increase your contribution amount — the maximum contribution in 2019 is $19,000. If you receive a bonus, consider putting a portion into your retirement plan. Or better yet, set your retirement savings as a percentage of income, rather than a dollar amount. This way, as you receive raises and bonuses, you automatically increase your savings.

As discussed, if your employer does not offer a retirement plan you can contribute to an IRA. The logistics are a little more difficult as you will need to open an IRA with a brokerage firm (Schwab, TD Ameritrade, Fidelity, etc.) and set up a direct deposit from your checking account. If you opt for direct deposit, you can contribute every paycheck just like a company retirement plan. Just note the maximum for an IRA is $6,000 in 2019, much lower than a company retirement plan.

The power of compounding interest is incredible and the more time you have the more powerful it becomes. For example, if you start saving $5,000 per year at age 22 for the next 40 years at a 6% rate of return, you will have generated $773,800 at age 62. If you wait until age 42 to start saving and save $15,000 per year for the next 20 years at a 6% rate of return, you will have $551,780 at age 62. You saved 40% more and contributed two-thirds less just because you started earlier — that is the power of compounding interest with time!

The advice, again, is simple: start saving early, pay yourself first and watch the money grow. The longer you wait, the more you will need to save. Follow these simple tips, and you will be happy you did!

William Paterson Students Attend a 'Financial Planning Day'

Access Wealth recently hosted its second annual Financial Planning Day for William Paterson University (WPU) Cotsakos College of Business students majoring in financial planning.

The students spent most of the day with members of the Access Wealth team, who educated them on a "day in the life" of a financial planner. They shared the firm's philosophy and emphasized how financial planning is about more than numbers; it's about helping people and building relationships. They also discussed the different types of professionals and firms that exist in the industry to help students weigh their options as they seek out internships and eventually enter the workforce. Representatives from Charles Schwab and PGIM also contributed to the day.

Adrian Rodriguez was one William Paterson student who attended the inaugural day a year ago, already working for several months at Access Wealth as an intern on a special project.

"The annual day at Access meant a great deal to me," said Rodriguez, who graduated from WPU last month and recently accepted a permanent position at the firm. I had the opportunity to gain insight on some of the firm's vendors and about the industry as a whole. I continued my internship here throughout the following semesters, and this past William Paterson Day, I presented to the group about my transition from intern to employee. Sharing my experience with my fellow students gave me confidence about the role I now play within the firm."

According to Howard Milove, an Access Wealth principal, "The students asked great questions and left feeling more knowledgeable and excited about their future careers."

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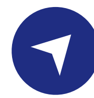

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The Student Loan: Pay Now or Pay Later?

By Howard Hook, CFP®, CPA

The first day of work after completing school or professional training can and should feel fantastic. Finally, your career begins!

Shortly thereafter, the student loan bill shows up in the mail and that euphoric feeling begins to subside. How are you ever going to be able to pay off this debt, buy a home, start a family, and hopefully retire one day?

For many young people, the harsh reality of student loans—coupled with a late start in savings for many professionals who spent their 20s in school or training—can make achieving their goals daunting, to say the least. It's at a time when many contemporaries are already well into their careers.

One of the first decisions many recent graduates and young professionals face is when to pay off their student loans. The cost for four years of undergraduate study plus graduate or professional school can be significant; plus many choose to go into forbearance during training to postpone payments (while interest accrues) or apply for deferment (which is not easy to qualify for).

The statistics are pretty sobering. According to a recent study by the Association of American Medical Colleges, 76% of students graduate medical school with debt averaging $192,000. A report conducted by the Urban Institute—*The Price of Graduate and Professional School: How Much Students Pay*—found that 56% of law graduates had debt exceeding $100,000. Add that to the cost of undergraduate loans and it probably approaches the same size of many first mortgages.

However, unlike most mortgages where homeowners are entitled to take a tax deduction for the mortgage interest paid (yes, it's still available under the new tax law), student loan interest is capped at $2,500 of deductible interest per year. Furthermore, if your income is above a certain amount, the deduction is not allowed.

Further complicating the issue are interest rates on student loan debt, which have continued to rise over the past few years.

If you decide to pay just the stated principal and interest it could take many years to pay off the debt (depending upon the loan term you chose). If you are fortunate to earn enough money to make significant additional principal payments, the loan term will shorten. But, before doing so, you need to ask yourself, "What will I be sacrificing by making additional principal payments?" What if making additional principal payments means you cannot contribute to a retirement plan at work? Or what if you won't be able to save for a down payment on a house? Is it still worth paying the extra principal?

A common way to look for the answer is to review the numbers. If paying off debt early saves you years of interest payments of 6%, it may make sense if you expect the returns on a retirement plan contribution to yield less than that. The problem with this scenario is that by delaying saving for retirement, you create a larger savings need down the road. For example, a 35-year-old with a savings goal of $1 million by age 65 needs to save approximately $15,000 annually (assuming the investment earns 5% each year). Someone with the same goal who starts five years later needs to save $21,000 per year, or 40% more annually.

A better way to address whether to pay down the student loan debt would be to take a balanced approach. Putting 50% of the additional principal into a retirement plan at work — which you would have put towards the student loan debt — is a good way to hedge your bets. This way you are paying down the loan while at the same time saving for retirement (or a house purchase, should that be the goal).

One benefit often overlooked when deciding whether to contribute to an employer retirement plan is that many employers will match your contributions (up to a certain amount). If that's the case, it definitely makes sense to contribute to the retirement plan up to the amount of the match. After all, when adding in the match, the return on the money is far superior to the interest saved on paying down the loan debt. For example, if you contribute $5,000 to a retirement plan at work and your employer matches 100% of that contribution, at the end of the first year — even assuming the funds do not earn anything — it would

(Continued on Page 4)

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Inheritance

(Continued from Page 1)

- **Retirement accounts.** If you are a spouse, you can retitle retirement assets in your name or take an immediate payout. Often, keeping the accounts and transferring ownership to your name is best, as it maintains the income tax stretch provisions of the retirement account. If you are not the spouse, your choices are limited. Options include withdrawing the balance over your lifetime with an annual required minimum distribution, distributing the account over five years, or taking an immediate full distribution. Remember, there are different tax implications for each of these choices. You will also want to update the beneficiary designations to reflect your wishes at your death.
- **House.** If you inherit a house and property, your options are to sell it, rent it, or live in it (part-time or full-time). Selling the home will provide funds to add to your nest egg for fulfilling your goals, such as retirement or paying off your mortgage. Renting the home will generate an income stream, which could help you cover expenses in retirement or add to savings. Of course, there are specific risks and costs associated with being a landlord that you should consider.
- **Jewelry and other assets.** If you inherit other types of assets, you have to first decide whether there are sentimental reasons to keep the assets. If you decide to keep them, make sure they are properly appraised and insured. You can hold an estate sale or donate the assets you do not want.

Receiving an inheritance brings added responsibility. Decisions surrounding an inheritance need not — and should not — be rushed. Take your time, make sound decisions, and if possible set aside a little for yourself.

Student Loans

(Continued from Page 3)

be worth $10,000, which is a 100% return on your money! Last I checked, no student loan interest rate was that high.

As you earn more money, you can incrementally increase both the amount of additional principal you pay toward the student loan and how much you contribute to your other savings goals. For example, if in the first year you pay $5,000 of additional principal toward your student loan and $5,000 into a retirement plan at work, try to increase each of those by 10% the next year ($5,500 to each). If you make these increases each year, you will start to see material changes in both your shrinking student loan balance and your growing retirement account.

Finally, try not to get overwhelmed by the amounts. Breaking it down into smaller chunks can help you stay motivated and on track.

Retirement plan contributions are generally made via payroll, so saving $5,000 a year when you get paid twice a month means $208 per paycheck is being saved. Since retirement plan contributions are pre-tax and reduce your taxable income, the actual change in your net pay is less than $208.

Additional student loan principal payments can be made in small increments as well. Using the example above, spreading $5,000 of additional principal payments over 12 monthly payments is $416.66 per month. Splitting that monthly payment into two smaller $208 payments (coinciding with your payroll schedule) helps keep it manageable. Also, since student loan interest compounds daily, sending a mid-month payment pays down debt even faster.

It's not a one-size-fits-all decision, but taking a closer look at your own unique situation can help you make a decision that works best for you.

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