

Building Capital

FinArc Investments Newsletter

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Greetings from your friends at FinArc Investments. As we prepare this newsletter, the cold rainy weather has turned to a beautiful warm sunny day which lifts everyone's spirits. Spring is always a good time to get your financial and physical houses in order. We hope the articles this quarter help you with the former. As always, FinArc is here to help with such important matters. Please let us know if you would like more of our guidance with your investments and/or achieving your particular financial goals.

Second Quarter 2017

Spring Cleaning Your Finances

Converting Retirement Savings to Retirement Income

Are you ready to retire?

What happens to my property if I die without a will?



Four Numbers You Need to Know Now



When it comes to your finances, you might easily overlook some of the numbers that really count. Here are four to pay attention to now that might really matter in the future.

1. Retirement plan contribution rate

What percentage of your salary are you contributing to a retirement plan? Making automatic contributions through an employer-sponsored plan such as a 401(k) or 403(b) plan is an easy way to save for retirement, but this out-of-sight, out-of-mind approach may result in a disparity between what you need to save and what you actually are saving for retirement. Checking your contribution rate and increasing it periodically can help you stay on track toward your retirement savings goal.

Some employer retirement plans let you sign up for automatic contribution rate increases each year, which is a simple way to bump up the percentage you're saving over time. In addition, try to boost your contributions when you receive a pay raise. Consider contributing at least enough to receive the full company match (if any) that your employer offers.

2. Credit score

When you apply for credit, such as a mortgage, a car loan, or a credit card, your credit score is one of the tools used by lenders to evaluate your creditworthiness. Your score will likely factor into the approval decision and affect the terms and the interest rate you'll pay.

The most common credit score that creditors consider is a FICO® Score, a three-digit number that ranges from 300 to 850. This score is based on a mathematical formula that uses information contained in your credit report. In general, the higher your score, the lower the credit risk you pose.

Each of the three major credit reporting agencies (Equifax, Experian, and TransUnion) calculates FICO® scores using different formulas, so you may want to check your scores from all three (fees apply). It's also a good idea to get a copy of your credit report at

least annually to check the accuracy of the information upon which your credit score is based. You're entitled to one free copy of your credit report every 12 months from each of the three credit reporting agencies. You can get your copy by visiting annualcreditreport.com.

3. Debt-to-income ratio

Your debt-to-income ratio (DTI) is another number that lenders may use when deciding whether to offer you credit. A DTI that is too high might mean that you are overextended. Your DTI is calculated by adding up your major monthly expenses and dividing that figure by your gross monthly income. The result is expressed as a percentage. For example, if your monthly expenses total \$2,200 and your gross monthly income is \$6,800, your DTI is 32%.

Lenders decide what DTIs are acceptable, based on the type of credit. For example, mortgage lenders generally require a ratio of 36% or less for conventional mortgages and 43% or less for FHA mortgages when considering overall expenses.

Once you know your DTI, you can take steps to reduce it if necessary. For example, you may be able to pay off a low-balance loan to remove it from the calculation. You may also want to avoid taking on new debt that might negatively affect your DTI. Check with your lender if you have any questions about acceptable DTIs or what expenses are included in the calculation.

4. Net worth

One of the key big-picture numbers you should know is your net worth, a snapshot of where you stand financially. To calculate your net worth, add up your assets (what you own) and subtract your liabilities (what you owe). Once you know your net worth, you can use it as a baseline to measure financial progress.

Ideally, your net worth will grow over time as you save more and pay down debt, at least until retirement. If your net worth is stagnant or even declining, then it might be time to make some adjustments to target your financial goals, such as trimming expenses or rethinking your investment strategy.

Spring Cleaning Your Finances



The arrival of spring often signifies a time of renewal, a reminder to dust off the cobwebs and get rid of the dirt and grime that have built up throughout the winter season. And while most spring cleaning projects are likely focused on your home, you could take this time to evaluate and clean up your personal finances as well.

Examine your budget..and stick with it

A budget is the centerpiece of any good personal financial plan. Start by identifying your income and expenses. Next, add them up and compare the two totals to make sure you are spending less than you earn. If you find that your expenses outweigh your income, you'll need to make some adjustments to your budget (e.g., reduce discretionary spending).

Keep in mind that in order for your budget to work, you'll need to stick with it. And while straying from your budget from time to time is to be expected, there are some ways to help make working within your budget a bit easier:

- Make budgeting a part of your daily routine
- Build occasional rewards into your budget
- Evaluate your budget regularly and make changes if necessary
- Use budgeting software/smartphone applications

Evaluate your financial goals

Spring is also a good time to evaluate your financial goals. Take a look at the financial goals you've previously set for yourself — both short and long term. Perhaps you wanted to increase your cash reserve or invest more money toward your retirement. Did you accomplish any of your goals? If so, do you have any new goals you now want to pursue? Finally, have your personal or financial circumstances changed recently (e.g., marriage, a child, a job promotion)? If so, would any of these events warrant a reprioritization of some of your existing financial goals?

Review your investments

Now may be a good time to review your investment portfolio to ensure that it is still on target to help you achieve your financial goals. To determine whether your investments are still suitable, you might ask yourself the following questions:

- Has my investment time horizon recently changed?
- Has my tolerance for risk changed?
- Do I have an increased need for liquidity in my investments?

- Does any investment now represent too large (or too small) a part of my portfolio?

All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

Try to pay off any accumulated debt

When it comes to personal finances, reducing debt should always be a priority. Whether you have debt from student loans, a mortgage, or credit cards, have a plan in place to pay down your debt load as quickly as possible. The following tips could help you manage your debt:

- Keep track of your credit card balances and be aware of interest rates and hidden fees
- Manage your payments so that you avoid late fees
- Optimize your repayments by paying off high-interest debt first
- Avoid charging more than you can pay off at the end of each billing cycle

Take a look at your credit history

Having good credit is an important part of any sound financial plan, and now is a good time to check your credit history. Review your credit report and check for any inaccuracies. You'll also want to find out whether you need to take steps to improve your credit history. To establish a good track record with creditors, make sure that you always make your monthly bill payments on time. In addition, you should try to avoid having too many credit inquiries on your report (these are made every time you apply for new credit). You're entitled to a free copy of your credit report once a year from each of the three major credit reporting agencies. Visit annualcreditreport.com for more information.

Assess tax planning opportunities

The return of the spring season also means that we are approaching the end of tax season. Now is also a good time to assess any tax planning opportunities for the coming year. You can use last year's tax return as a basis, then make any anticipated adjustments to your income and deductions for the coming year.

Be sure to check your withholding — especially if you owed taxes when you filed your most recent tax return or you were due a large refund. If necessary, adjust the amount of federal or state income tax withheld from your paycheck by filing a new Form W-4 with your employer.



Regardless of which path you choose with your retirement accounts, keep in mind that generally, you'll be required to begin taking minimum distributions from employer-sponsored plans and traditional IRAs in the year you reach age 70½; you can delay your first distribution as late as April 1 of the following year.

Taxable distributions from traditional employer-sponsored plans and IRAs prior to age 59½ may be subject to a 10% penalty tax, unless an exception applies.

Different rules apply to Roth accounts. For information on how Roth accounts may fit into your retirement income picture, talk to a financial professional.

Converting Retirement Savings to Retirement Income

You've been saving diligently for years, and now it's time to think about how to convert the money in your traditional 401(k)s (or similar workplace savings plans) into retirement income. But hold on, not so fast. You may need to take a few steps first.

Evaluate your needs

If you haven't done so, estimate how much income you'll need to meet your desired lifestyle in retirement. Conventional wisdom says to plan on needing 70% to 100% of your annual pre-retirement income to meet your needs in retirement; however, your specific amount will depend on your unique circumstances. First identify your non-negotiable fixed needs — such as housing, food, and medical care — to get clarity on how much it will cost to make basic ends meet. Then identify your variable wants — including travel, leisure, and entertainment. Segregating your expenses into needs and wants will help you develop an income strategy to fund both.

Assess all sources of predictable income

Next, determine how much you might expect from sources of predictable income, such as Social Security and traditional pension plans.

Social Security: At your full retirement age (which varies from 66 to 67, depending on your year of birth), you'll be entitled to receive your full benefit. Although you can begin receiving reduced benefits as early as age 62, the longer you wait to begin (up to age 70), the more you'll receive each month. You can estimate your retirement benefit by using the calculators on the SSA website, ssa.gov. You can also sign up for a my Social Security account to view your Social Security Statement online.

Traditional pensions: If you stand to receive a traditional pension from your current or a previous employer, be sure to familiarize yourself with its features. For example, will your benefit remain steady throughout retirement or increase with inflation? Your pension will most likely be offered as either a single life or joint-and-survivor annuity. A single-life annuity provides benefits until the worker's death, while a joint-and-survivor annuity generally provides reduced benefits until the survivor's death.¹

If it looks as though your Social Security and pension income will be enough to cover your fixed needs, you may be well positioned to use your other assets to fund those extra wants. On the other hand, if your predictable sources are not sufficient to cover your fixed needs, you'll need to think carefully about how to tap your

retirement savings plan assets, as they will be a necessary component of your income.

Understand your savings plan options

A key in determining how to tap your retirement plan assets is to understand the options available to you. According to the Government Accountability Office (GAO), only about one-third of 401(k) plans offer withdrawal options, such as installment payments, systematic withdrawals, and managed payout funds.² And only about a quarter offer annuities, which are insurance contracts that provide guaranteed income for a stated amount of time (typically over a set number of years or for the life expectancy of the participant or the participant and spouse).³

Plans may allow you to leave the money alone or require you to take a lump-sum distribution. You may also choose to roll over the assets to an IRA, which might offer a variety of income and investment opportunities, including the purchase of annuity contracts. If you choose to work part-time in retirement, you may be allowed to roll your assets into the new employer's plan.

Determining the right way to tap your assets can be challenging and should take into account a number of factors. These include your tax situation, whether you have other assets you'll use for income, and your desire to leave assets to heirs. A financial professional can help you understand your options.

¹Current law requires married couples to choose a joint-and-survivor annuity unless the spouse waives those rights.

²"401(k) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants," GAO Report to Congressional Requesters, August 2016

³Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Qualified annuities are typically purchased with pre-tax money, so withdrawals are fully taxable as ordinary income, and withdrawals prior to age 59½ may be subject to a 10% penalty tax. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company. It is important to understand that purchasing an annuity in an IRA or an employer-sponsored retirement plan provides no additional tax benefits other than those available through the tax-deferred retirement plan.

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FinArc Investments, Inc. is a registered investment adviser.

Please contact FinArc Investments, Inc. if you wish to add or modify any restrictions to the management of your account. Our current disclosure statement is set forth on Part II of Form ADV.



Are you ready to retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

Is your nest egg adequate?

It may be obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off your retirement savings. The average American can expect to live past age 78.* With future medical advances likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

When will you begin receiving Social Security benefits?

You can receive Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

How will retirement affect your IRAs and employer retirement plans?

The longer you delay retirement, the longer you can build up tax-deferred funds in traditional IRAs and potentially tax-free funds in Roth

IRAs. Remember that you need taxable compensation to contribute to an IRA.

You'll also have a longer period of time to contribute to employer-sponsored plans like 401(k)s — and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not fully vested.)

Will you need health insurance?

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or an individual policy from a private insurer or the health insurance marketplace — which could be an expensive proposition.

Is phasing into retirement right for you?

Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.

* NCHS Data Brief, Number 267, December 2016



What happens to my property if I die without a will?

If you die without a will, your property will generally pass according to state law (under the rules for intestate succession). When this

happens, the state essentially makes a will for you. State laws specify how your property will pass, typically in certain proportions to various persons related to you. The specifics, however, vary from state to state.

Most state laws favor spouses and children first. For example, a typical state law might specify that your property pass one-half or one-third to your surviving spouse, with the remainder passing equally to all your children. If you don't have children, in many states your spouse might inherit all of your property; in other states, your spouse might have to share the property with your brothers and sisters or parents.

But not all property is transferred by will or intestate succession. Regardless of whether you have a will, some property passes automatically to a joint owner or to a designated beneficiary. For example, you can transfer property such as IRAs, retirement plan benefits,

and life insurance by naming a beneficiary.

Property that you own jointly with right of survivorship will pass automatically to the surviving owners at your death. Property held in trust will pass to your beneficiaries according to the terms you set out in the trust.

Only property that is not transferred by beneficiary designation, joint ownership, will, or trust passes according to intestate succession. You should generally use beneficiary designations, joint ownership, wills, and trusts to control the disposition of your property so that you, rather than the state, determine who receives the benefit of your property.

Even if it seems that all your property will be transferred by beneficiary designation, joint ownership, or trust, you should still generally have a will. You can designate in the will who will receive any property that slips through the cracks.

And, of course, you can do other things in a will as well, such as name the executor of your estate to carry out your wishes as specified in the will, or name a guardian for your minor children.