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Hi friends and clients!
Happy New Year! We hope you had a great holiday season and enjoyed time with friends and family. Even though we're entering the coldest part of the year, remember that there is more and more daylight every day and spring is right around the corner. Hopefully 2016 will bring strong market returns, mild weather, and good health!
For anyone who is interested, here is Commonwealth's Chief Investment Officer, Brad McMillan, with his December recap (published 12/3/15):
https://www.youtube.com/watch?v=xvvIq8NNnfk
Enjoy this month's articles.

Jim, Ken, Megan, Sharon, & Susie

January 2016 Financial Fitness

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INVESTMENT & RETIREMENT PLANNING

Financial Fitness

Duncklee & Nott Monthly Newsletter

When a Saver Marries a Spender, Every Penny Counts

If you're a penny pincher but your spouse is penny wise and pound foolish, money arguments may frequently erupt. Couples who have opposite philosophies regarding saving and spending often have trouble finding common ground. Thinking of yourselves as two sides of the same coin may help you appreciate your financial differences.

Heads or tails, saver or spender

If you're a saver, you love having money in the bank, investing in your future, and saving for a rainy day. You probably hate credit card debt and spend money cautiously. Your spender spouse may seem impulsive, prompting you to think, "Don't you care about our future?" But you may come across as controlling or miserly to your spouse who thinks, "Just for once, can't you loosen up? We really need some things!"

Such different outlooks can lead to mistrust and resentment. But are your characterizations fair? Your money habits may have a lot to do with how you were raised and your personal experience. Being a saver or a spender may come naturally; instead of assigning blame, try to see your spouse's side.

Start by discussing your common values. What do you want to accomplish together? Recognize that spenders may be more focused on short-term goals, while savers may be more focused on long-term goals. Ultimately, whether you're saving for a vacation, a car, college, or retirement, your money will be spent on something. It's simply a matter of deciding together when and how to spend it.

A penny for your thoughts?

Sometimes couples avoid talking about money because they are afraid to argue. But talking about money may actually help you and your spouse avoid conflict. Scheduling regular money meetings could help you gain a better understanding of your finances and provide a forum for handling disagreements.

To help ensure a productive discussion, establish some ground rules. For example, you might set a time limit, insist that both of you come prepared, and take a break in the event the discussion becomes heated. Communication and compromise are key. Don't assume you know what your spouse is thinking--ask--and be willing to negotiate. Here are some questions to get started.

- What does money represent to you? Security? Freedom? The opportunity to help others?
- What are your short-term and long-term savings goals?
- How much money is coming in and how much is going out? Never assume that your spouse knows as much about your finances as you do.
- How comfortable are you with debt, including mortgage debt, credit card debt, and loans?
- Who should you spend money on? Do you agree on how much to give to your children or how much to spend on gifts to family members and friends, for example?
- What rules would you like to apply to purchases? One option is to set a limit on how much one spouse can spend on an item without consulting the other.
- Would you like to set aside some discretionary money for each of you? Then you would be free to save or spend those dollars without having to justify your decision.

Once you've explored these topics, you can create a concrete budget or spending plan that reflects your financial personalities. To satisfy you and your spouse, make savings an "expense" and allow some room in the budget for unexpected expenses. And track your progress. Having regular meetings to go over your finances will enable you to celebrate your financial successes or identify areas where you need to improve. Be willing to make adjustments if necessary.

Finally, recognize that getting on the same page is going to take some work. When you got married, you promised to love your spouse for richer or poorer. Maybe it's time to put your money where your mouth is.

Are There Gaps in Your Insurance Coverage?

If you own a condo, your association's property insurance may leave gaps in coverage. For example, most association insurance doesn't cover your furniture, wall coverings, electronics, interior walls, and structural improvements made to the interior of your unit. Review your condo documents, particularly the association's master deed, its by-laws, rules and regulations, which may describe those parts of your unit the association insurance covers, and which parts you may need to insure.

Buying insurance is about sharing or shifting risk. For example, health insurance will cover some of the cost of medical care. Homeowners insurance will assume some of the risk of loss in the event your home is damaged or destroyed. But oftentimes we think we're covered for specific losses when, in fact, we're not. Here are some common coverage gaps to consider when reviewing your own insurance coverage.

Life insurance

In general, you want to have enough life insurance coverage (when coupled with savings and income) to allow your family to continue living the lifestyle to which they're accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, changing jobs could affect your insurance coverage. You may not have the same amount of insurance, or the policy provisions may differ. Whereas your prior employer may have provided permanent life insurance, now you may have term insurance that will expire on a predetermined date. Review your income, savings, and expenses annually and compare them to your insurance coverage, and be mindful that changing circumstances may require a change in the amount of insurance coverage.

Homeowners insurance

It's not always clear from reading your homeowners policy which perils are covered and how much damage will be paid for. It's important to know what your homeowners policy covers and, more important, what it doesn't cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that "all perils" are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes, and hurricanes may be covered only by special addendums to your policy, or in some cases by separate insurance policies altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and how long it will pay for temporary housing while repairs are made.

To avoid these gaps in coverage, review your policy annually with your insurer. Also, pay attention to notices you may receive. What may look like boilerplate language could actually be significant changes to your coverage. Don't rely on your interpretations--seek an explanation from your insurer or agent.

Auto insurance

Which drivers and what vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you, but it's not always clear-cut. For instance, a child who is living in a college dorm is probably covered, but a child who lives in an off-campus apartment might be excluded from coverage. If you and your spouse divorce, which policy insures your children, particularly if they are living with each parent at different times of the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires, and shocks. And you might not be covered for stolen or damaged cell phones or other electronic devices. Your policy may also limit the amount paid for a rental while your vehicle is being repaired.

In fact, insurance coverage for rental cars may also pose a problem. For instance, your own collision coverage may apply to the rental car you're driving, but it may not pay for all the damage alleged by a rental company, such as loss of use charges. If you're leasing a car long term, your policy may cover the replacement cost only if the car is a total loss or is stolen. But that amount may not be enough to pay for the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren't always easily understood, and you may not be sure what's covered until it's time to file a claim. So review your insurance policy to be sure you've filled all the gaps in your coverage.

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Give Your Retirement Plan an Annual Checkup

As you reconsider your retirement income needs, it might also make sense to check your expected Social Security benefit and any other potential sources of income. To get an estimate of your future Social Security payments, go to socialsecurity.gov and select "my Social Security."

Asset allocation does not guarantee a profit or protect against a loss; it is a method used to help manage investment risk.

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

Financial professionals typically recommend that you review your employer-sponsored retirement savings plan annually and when major life changes occur. If you haven't revisited your plan yet in 2015, the end of the year may be an ideal time to do so.

Reexamine your risk tolerance

This past year saw moments that would try even the most resilient investor's resolve. When you hear media reports about stock market volatility, is your immediate reaction to consider selling some of the stock investments in your plan? If that's the case, you might begin your annual review by reexamining your risk tolerance.

Risk tolerance refers to how well you can ride out fluctuations in the value of your investments while pursuing your long-term goals. An assessment of your risk tolerance considers, among other factors, your investment time horizon, your accumulation goal, and assets you may have outside of your plan account. Your retirement plan's educational materials likely include tools to help you evaluate your risk tolerance, typically worksheets that ask a series of questions. After answering the questions, you will likely be assigned a risk tolerance ranking from conservative to aggressive. In addition, suggested asset allocations are often provided for consideration.

Have you experienced any life changes?

Since your last retirement plan review, did you get married or divorced, buy or sell a house, have a baby, or send a child to college? Perhaps you or your spouse changed jobs, received a promotion, or left the workforce entirely. Has someone in your family experienced a change in health? Or maybe you inherited a sum of money that has had a material impact on your net worth. Any of these situations can affect both your current and future financial situation.

In addition, if your marital situation has changed, you may want to review the beneficiary designations in your plan account to make sure they reflect your current wishes. With many employer-sponsored plans, your spouse is automatically your plan beneficiary unless he or she waives that right in writing.

Reassess your retirement income needs

After you evaluate your risk tolerance and consider any life changes, you may want to take another look at the future. Have your dreams for retirement changed at all? And if so, will those changes affect how much money you will need to live on? Maybe you've reconsidered plans to relocate or travel extensively, or now plan to start a business or work part-time during retirement.

All of these factors can affect your retirement income needs, which in turn affects how much you need to save and how you invest today.

Is your asset allocation still on track?

Once you have assessed your current situation related to your risk tolerance, life changes, and retirement income needs, a good next step is to revisit the asset allocation in your plan. Is your investment mix still appropriate? Should you aim for a higher or lower percentage of aggressive investments, such as stocks? Or maybe your original target is still on track but your portfolio calls for a little rebalancing.

There are two ways to rebalance your retirement plan portfolio. The quickest way is to sell investments in which you are overweighted and invest the proceeds in underweighted assets until you hit your target. For example, if your target allocation is 75% stocks, 20% bonds, and 5% cash but your current allocation is 80% stocks, 15% bonds, and 5% cash, then you'd likely sell some stock investments and invest the proceeds in bonds. Another way to rebalance is to direct new investments into the underweighted assets until the target is achieved. In the example above, you would direct new money into bond investments until you reach your 75/20/5 target allocation.

Revisit your plan rules and features

Finally, an annual review is also a good time to take a fresh look at your employer-sponsored plan documents and plan features. For example, if your plan offers a Roth account and you haven't investigated its potential benefits, you might consider whether directing a portion of your contributions into it might be a good idea. Also consider how much you're contributing in relation to plan maximums. Could you add a little more each pay period? If you're 50 or older, you might also review the rules for catch-up contributions, which allow those approaching retirement to contribute more than younger employees.

Although it's generally not a good idea to monitor your employer-sponsored retirement plan on a daily, or even monthly, basis, it's important to take a look at least once a year. With a little annual maintenance, you can help your plan keep working for you.

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What do I need to know about submitting the FAFSA?

The FAFSA, which stands for Free Application for Federal Student Aid, is the federal government's financial aid application. Though the thought of completing it may inspire a collective groan from parents each year, this form is the prerequisite for many different types of federal and college financial aid, including loans, grants, scholarships, and work-study. So filling it out should be one of the first things on your list if your son or daughter will need some type of financial aid to attend college.

Even if you don't think your child will qualify for aid, you should still consider submitting the FAFSA in two instances. The first is when you want your child to have some "skin in the game" by taking on a small loan. In this case, filing the FAFSA will make your child eligible for an unsubsidized Stafford Loan each year--up to $5,500 for freshmen, $6,500 for sophomores, and $7,500 for juniors and seniors. Unsubsidized Stafford Loans aren't based on financial need and are available to any student attending college at least half-time.

The second situation for which you might file the FAFSA is when you want your child to be considered for college financial aid. Colleges generally require the FAFSA, along with the CSS Profile form, before they'll determine whether your child is eligible for any college need-based grants and scholarships.

The FAFSA is available online at [fafsa.ed.gov.](fafsa.ed.gov) A new sign-in method (as of May 2015) requires creating an FSA ID, which consists of a username and password. The FSA ID replaces the prior PIN sign-in method and is meant to be more secure.

The FAFSA should be filed as soon as possible after January 1 for both new and returning students because some aid programs operate on a first-come, first-served basis. Practically speaking, many families wait to submit the FAFSA until after they have completed their tax returns, but you don't have to wait. The FAFSA can be submitted with estimated tax numbers and then updated later with final tax numbers by simply adding the final numbers manually or using the government's online IRS Retrieval Tool. Regarding the filing timeline, look for a change on the horizon. Starting with the 2017/2018 school year, families will be able to file the FAFSA as early as October 2016 using their 2015 tax information.

What happens after I file the FAFSA?

After you submit the federal government's FAFSA (Free Application for Federal Student Aid), you will receive a Student Aid Report (either electronically or by mail, depending on how you filed the FAFSA). This report summarizes key data from your FAFSA and provides you with the holy grail of numbers--your expected family contribution, or EFC, which is the amount of money the government expects your family to contribute toward college for the current year before being eligible for federal aid.

For example, EFC27000 means that your expected family contribution is $27,000. Keep in mind that this figure is what the *government* says you can afford to pay, not what *you* say you can afford. In fact, many families may find it difficult to pay their EFC, let alone any potential remaining costs.

Review your report carefully to make sure it contains your correct income and asset information. Any corrections should be made immediately and sent back for reprocessing. If you have questions, you can contact the Federal Student Aid Information Center at 1-800-433-3243. An asterisk (*) next to your EFC means that your application has been selected for verification, which means you'll need to provide additional documentation as specified.

Your Student Aid Report is also sent to each college that your child listed on the FAFSA. The financial aid administrator at each school that has accepted your child will then use the report (along with the CSS Profile form, if applicable) to craft an aid package that attempts to meet your child's financial need. Aid packages typically include various combinations of federal loans, grants, and work-study jobs along with college grants and scholarships. Colleges are not obligated to meet all of your family's financial need. If they don't, it's called getting "gapped." In this case, you're on the hook for your EFC *plus* any gap.

Both new and returning students will be notified of a college's aid package in the spring. Some colleges may send a letter, some may post the information on a password-protected online site, and some may do both. Make sure to look over the award carefully. If you have questions or your financial circumstances have changed since you filed the FAFSA, contact the college's financial aid office.