

# MOLDENHAUER & ASSOCIATES

## OCTOBER NEWSLETTER

Editor: Richard C. Moldenhauer, CLU, CEP, RFC Chartered Financial Consultant

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It was a short hot summer in WNY. It seems like Kathy and I just got back in town and now we are leaving again.

Over the summer, I have learned how to use Zoom, I have caught a lot of fish, and my grilling skills have improved. I have walked a lot of miles and enjoyed seeing the family.

In this weird new world, I have had a good summer. The friends I have seen were appreciated. The friends I did not get to see were missed.

I was reflecting on how far we have come and the tremendous future ahead. During my entire career, until the last 1990's, we were in Buffalo on Delaware Avenue. I liked the city, but it was hard to run a successful business. The harder we worked the more difficult progress was. We have always been a client focused business and most of our clients lived outside the city proper. We had a nice building but even clients working in the city preferred meeting our advisors at home. Our move to Orchard Park changed so much. Clients like coming to the office, the parking lot is large and safe. The business grew and when Brett became the firm's leader, the business even got better. Before the beginning of the pandemic, it was not uncommon for over 100 clients to visit our offices during the work week. Things are slowly returning to a "new" normal. The new being enhanced safety with masks, detailed cleaning of all surfaces between clients, hand sanitizer and social distancing.

With fall arriving, the election is around the corner. I suggest that you stay connected to your advisor at the firm. There may be appropriate planning suggestions to consider and your advisor will help you keep current and up to date. If you have been less connected in recent months, consider a call to the office. We are here to help, and we look forward to being of service.

Let us hope the year smooths out and there is a gradual return to the world and lives we have been missing.

*Richard Moldenhauer*

Richard Moldenhauer





## BAD MONEY HABITS TO BREAK

*Behaviors worth changing.*

### Do bad money habits constrain your financial progress?

Many people fall into the same financial behavior patterns, year after year. If you sometimes succumb to these financial tendencies, now is as good a time as any to alter your behavior.

#### #1: Lending money to family & friends.

You may know someone who has lent a few thousand to a sister or brother, a few hundred to an old buddy, and so on. Generosity is a virtue, but personal loans can easily transform into personal financial losses for the lender. If you must loan money to a friend or family member, mention that you will charge interest and set a repayment plan with deadlines. Better yet, don't do it at all. If your friends or relatives can't learn to budget, why should you bail them out?

#### #2: Spending more than you make.

Living beyond your means, living on margin, or whatever you wish to call it – it is a path toward significant debt. Wealth is seldom made by buying possessions; today's flashy material items may become the garage sale junk of the future.

#### #3: Saving little or nothing.

Good savers build emergency funds, have money to invest and compound, and leave the stress of living paycheck to paycheck behind. If you are not able to put extra money away, there is another way to get some: a second job. Even working 15-20 hours more per week could make a big difference.

#### #4: Living without a budget.

You may make enough money that you don't feel you need to budget. In truth, few of us are really that wealthy. In calculating a budget, you may find opportunities for savings and detect wasteful spending.

#### #5: Frivolous spending.

Advertisers can make us feel as if we have sudden needs; needs we must respond to, or ones that can only be met via the purchase of a product. See their ploys for what they are. Think twice before spending impulsively.

#### #6: Not using cash often enough.

No one can deny that the world runs on credit, but that doesn't mean your household should. Pay with cash as often as your budget allows.

#### #7: Thinking you'll win the lottery.

When the headlines are filled with news of big lottery jackpots, you might be tempted to throw a few bucks at a lottery ticket. It's important, though, to be fully aware that the odds in the lottery and other games of chance are against you. A few bucks once in a while is one thing, but a few bucks (or more) every week could possibly lead to financial and personal issues.

#### #8: Inadequate financial literacy.

Is the financial world boring? To many people, it can seem that way. The Wall Street Journal is not exactly Rolling Stone, and The Economist is hardly light reading. You don't have to start there, however. There are great, readable, and even, entertaining websites filled with useful financial information. Reading an article per day on these websites could help you greatly increase your financial understanding.

#### #9: Not contributing to retirement plans.

The earlier you contribute to them, the better; the more you contribute to them, the more compounding of those invested assets you may potentially realize.

#### #10: DIY retirement strategy.

Those who save for retirement without the help of professionals may leave themselves open to abrupt, emotional investing mistakes and other oversights. Another common tendency is to vastly underestimate the amount of money needed for the future. Few people have the time to amass the knowledge and skill set possessed by a financial services professional with years of experience. Instead of flirting with trial and error, see a professional for insight.

Richard Moldenhauer may be reached at 716-662-4361.

*Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC*

The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

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## **BUDGETING FOR BEGINNERS**

*Getting started with your household budget.*

### **Budgeting towards needs and goals.**

One of the objectives of creating a household budget is that, as time moves on and the various household members advance in their careers, they are likely to make more money. Knowing where that money goes can help direct that money to not only meet your day-to-day needs but also to potentially realize your financial goals. Rent payments may become mortgage payments, and socking away a few bucks into your savings each payday could change into an effective financial strategy involving various investment tools.<sup>1</sup>

Remember that investing involves risk, and the return and principal value of investments will fluctuate as market conditions change. Investment opportunities should take into consideration your goals, time horizon, and risk tolerance. When sold, investments may be worth more or less than their original cost. Past performance does not guarantee future results.

### **The back of an envelope or a spreadsheet app.**

Traditionally, a household budget could be worked out “on the back of an envelope.” Of course, this is still true, though you may have access to more bells and whistles than previous generations. Whether you prefer to work it out with pencil and paper or by computer, the main rule is to create and stick to the budget.

### **Easy come, easy go.**

Start by taking note of your income. Some Americans have more than one income source, either through a second gig or even a hobby turned small business. You don’t have to be making money very long, though, to realize that it doesn’t always sit still in your checking account. Along with your income, tally up your expenditures: Housing costs (rent, utilities, etc.), groceries, student loan payments, transportation expenses, phone, and Internet, as well as entertainment. It adds up! (More like subtracts, actually.)

### **Make adjustments.**

Ideally, the number at the bottom of this reckoning should be a positive number. This means that you’re living within your means and, while you may want to make that a larger number by adjusting your expenses, you’re at a good starting point.

Adjustments are probably overdue if you have a negative number; you’ll need to take a cold hard look at those expenses and think about can I live without (such as mountaineering lessons) and what isn’t going to give (the essentials: food and shelter).

Your other choice, of course, is to make more money. As you move on in your career, this will likely happen as you earn salary increases or build your business. Don’t forget, though, that life gets more expensive over time, as well. Rents and fees will rise as time goes on. Regular adjustments are a natural part of good budgetary maintenance.

### **Goals and strategies.**

If you have money coming in that is not being gobbled up by line items on your budget, and you stick to it and keep it that way, you’re (literally) coming out ahead. Now’s the time to put that money to work toward goals and strategies. Goals can be small, like saving up for a vacation or upgrading an item in your home. Or they can be larger, like saving for a major expense.

Goals can work side-by-side with financial strategies, which tend to be “bigger picture” in scope. Financial strategies tend to be things like looking ahead to your retirement or investing in creating more income (so you can get back to mountain climbing). For these bigger strategies and the shorter-term goals, there is an advantage to seeking out a financial professional geared toward helping you get the most from your efforts.

### **There is no “one way” to budget.**

There isn’t a single, one-size-fits-all solution for creating and maintaining a household budget. Financial professionals also know this and can help craft a strategy suited to your risk tolerance, goals, and financial situation.

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Citations.

1. PewResearch.org, March 25, 2020

## KEEP YOUR LIFE INSURANCE WHEN YOU RETIRE

*Some good reasons to retain it.*

### Do you need a life insurance policy in retirement?

One school of thought says no. The kids are grown, and the need to financially insulate the household against the loss of a breadwinner has passed.

If you are thinking about dropping your coverage for either or both of those reasons, you may also want to consider the excellent reasons to retain, obtain, or convert a life insurance policy after you retire. Take these factors into account and consult with your financial professional before making a decision.

### Could you make use of your policy's cash value?

If you have a whole life policy, you might want to utilize that cash in response to certain retirement needs. If you need extended care, for example, you could explore converting the cash in your whole life policy into a new policy with an extended care rider. This might even be doable without tax consequences. If you need additional income, many insurers will let you surrender a whole life policy you have held for some years and arrange an income contract with the cash value. You can access the money, tax free, as long as the amount that is withdrawn is less than the amount paid into the policy. Remember that withdrawing money or taking a loan against a policy's cash value, naturally reduces the policy's death benefit.<sup>1</sup>

### Do you receive a "single life" pension?

Maybe a pension-like income comes your way each month or quarter, from a former employer or through a private income contract with an insurer. If you are married and there is no joint-and-survivor option on your pension, that income stream will dry up if you die before your spouse dies. If you pass away early in your retirement, this could present your spouse with a serious financial dilemma. If your spouse risks finding themselves in such a situation, think about trying to find a life insurance policy with a monthly premium equivalent to the difference in the amount of income your household would get from a joint-and-survivor pension as opposed to a single life pension.<sup>2</sup>

### Will your estate be taxed?

Should the value of your estate end up surpassing federal or state estate tax thresholds, then life insurance proceeds may help pay the resulting taxes and prevent the need for your heirs to liquidate some assets.

### Are you carrying a mortgage?

If you borrowed to purchase your home or have refinanced and are carrying a mortgage, a life insurance policy may make sense. It could potentially relieve your heirs from shouldering some of or all that debt if you die with the mortgage still outstanding.<sup>2</sup>

### Do you have burial insurance?

The death benefit of your life insurance policy could partly or fully pay for the costs linked to your funeral or memorial service. In fact, some people buy small life insurance policies later in life to prepare for this expense.<sup>2</sup>

Alternatively, you may seek to renew or upgrade your existing term coverage for permanent life insurance. Consult an insurance professional you know and trust for insight.

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Citations.

1 - Nasdaq.com, April 30, 2020

2 - Forbes.com, May 19, 2020



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Our upcoming seminars are at:

## UPCOMING SEMINAR SITES AND DATES TO BE DETERMINED SOON.

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