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Don't Delay: The Potential Benefits of Starting to Save Now

Don't Wait to Ask Aging Parents These Important Questions

Why is it important to factor inflation into retirement planning?

Is a nursing home the only option for long-term care?



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Guiding You To Financial Success Since 1979

What's Your Money Script?



Money is power. A fool and his money are soon parted. A penny saved is a penny earned. Money is the root of all evil.

Do any of these expressions ring true for you?

As it turns out, the money beliefs our families espoused while we were growing up may have a profound effect on how we behave financially today — and may even influence our financial success.

Beliefs drive behaviors

In 2011, *The Journal of Financial Therapy* published a study by financial psychologist Brad Klontz et al., that gauged the reactions of 422 individuals to 72 money-related statements.¹ Examples of such statements include:

- There is virtue in living with less money
- Things will get better if I have more money
- Poor people are lazy
- It is not polite to talk about money

Based on the findings, Klontz was able to identify four "money belief patterns," also known as "money scripts," that influence how people view money. Klontz has described these scripts as "typically unconscious, trans-generational beliefs about money" that are "developed in childhood and drive adult financial behaviors."² The four categories are:

1. Money avoidance: People who fall into this category believe that money is bad and is often a source of anxiety or disgust. This may result in a hostile attitude toward the wealthy. Paradoxically, these people might also feel that all their problems would be solved if they only had more money. For this reason, they may unconsciously sabotage their own financial efforts while working extra hours just to make ends meet.

2. Money worship: Money worshippers believe that money is the route to true happiness, and one can never have enough. They feel that they will never be able to afford everything they want. These people may shop compulsively, hoard their belongings, and put work ahead of relationships in the ongoing quest for wealth.

3. Money status: Similar to money worshippers, these people equate net worth with self-worth, believing that money is the key to both happiness and power. They may live lavishly in an attempt to keep up with or even beat the Joneses, incurring heavy debt in the process. They are also more likely than those in other categories to be compulsive gamblers or to lie to their spouses about money.

4. Money vigilance: Money vigilants are cautious and sometimes overly anxious about money, but they also live within their means, pay off their credit cards every month, and save for the future. However, they risk carrying a level of anxiety so high that they cannot enjoy the fruits of their labor or ever feel a sense of financial security.

Awareness is the first step

According to Klontz's research, the first three money scripts typically lead to destructive financial behaviors, while the fourth is the one to which most people would want to aspire. If you believe you may fit in one of the self-limiting money script categories, consider how experiences in your childhood or the beliefs of your parents or grandparents may have influenced this thinking. Then do some reality-checking about the positive ways to build and manage wealth. As in other areas of behavioral finance and psychology in general, awareness is often the first step toward addressing the problem.

¹ "Money Beliefs and Financial Behaviors," *The Journal of Financial Therapy*, Volume 2, Issue 1

² Financial Planning Association, accessed October 24, 2017

Don't Delay: The Potential Benefits of Starting to Save Now

For long-term investment goals such as retirement, time can be one of your biggest advantages. That's because time allows your investment dollars to do some of the hard work for you through a mathematical principle known as compounding.

The snowball effect

The premise behind compounding is fairly simple. You invest to earn money, and if those returns are then reinvested, that money can also earn returns.

For example, say you invest \$1,000 and earn an annual return of 7% — which, of course, cannot be guaranteed. In year one, you'd earn \$70 and your account would be worth \$1,070. In year two, that \$1,070 would earn \$74.90, which would bring the total value of your account to \$1,144.90. In year three, your account would earn \$80.14, bringing the total to \$1,225.04 — and so on. Over time, if your account continues to grow in this manner, the process can begin to snowball and potentially add up.

Time and money

Now consider how compounding works over long time periods using dollar-cost averaging (investing equal amounts at regular intervals), a strategy many people use to save for retirement.¹ Let's say you contribute \$120 every two weeks. Assuming you earn a 7% rate of return each year, your results would look like this:

Time period	Amount invested	Total accumulated
10 years	\$31,200	\$45,100
20 years	\$62,400	\$135,835
30 years	\$93,600	\$318,381

After 10 years, your investment would have earned almost \$14,000; after 20 years, your money would have more than doubled; and after 30 years, your account would be worth more than three times what you invested.² That's the power of compounding at work. The longer you invest and allow the money to grow, the more powerful compounding can become.

The cost of waiting

Now consider how much it might cost you to *delay* your investing plan. Let's say you set a goal of accumulating \$500,000 before you retire. The following scenarios examine how much you would have to invest on a monthly basis, assuming you start with no money and earn a 7% annual rate of return (compounded monthly).

Time frame to retirement	40 years	35 years	30 years	25 years
Retirement accumulation goal	\$500,000	\$500,000	\$500,000	\$500,000
Annual rate of return	7%	7%	7%	7%
Monthly contribution needed	\$190	\$278	\$410	\$617

So the less time you have to pursue your goal, the more you will likely have to invest out of pocket. The moral of the story? Don't put off saving for the future. Give your investment dollars as much time as possible to do the hard work for you.

¹ Dollar-cost averaging does not ensure a profit or prevent a loss. It involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Review your progress periodically and be prepared to make adjustments when necessary.

² Assumes 26 contributions per year, compounded bi-weekly.

These hypothetical examples are used for illustrative purposes only and do not represent the performance of any specific investment. Fees and expenses are not considered and would reduce the performance shown if they were included. Actual results will vary. Rates of return will vary over time, particularly for long-term investments. Investments with the potential for higher rates of return also carry a greater degree of risk of loss.





The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf without a roadmap.

Note: There are costs and ongoing expenses associated with the creation of trusts.

Note: A complete statement of long-term care insurance coverage, including exclusions, exceptions, and limitations, is found only in the long-term care insurance policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.

Don't Wait to Ask Aging Parents These Important Questions

It's human nature to put off complicated or emotionally heavy tasks. Talking with aging parents about their finances, health, and overall well-being might fall in this category. Many adult children would rather avoid this task, as it can create feelings of fear and loss on both sides. But this conversation — what could be the first of many — is too important to put off for long. The best time to start is when your parents are relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis without a roadmap.

Here are some questions to ask them that might help you get started.

Finances

- What institutions hold your financial assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers, name(s) on accounts, and online user names and passwords, if any. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills? Do you use online bill pay for any accounts?
- Do you currently work with any financial, legal, or tax professionals? If so, ask your parents if they want to share contact information and whether they would find it helpful if you attended meetings with them.
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if the parent becomes disabled or incompetent.
- Do you have a will? If so, find out where it is and who is named as executor. If the will is more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now.
- Are your beneficiary designations up-to-date? Beneficiary designations on your parents' insurance policies, pensions, IRAs, and investment accounts will trump any instructions in their will.
- Do you have an overall estate plan? A trust? A living trust can be used to help manage an

estate while your parents are still living. If you'd like to learn more, consult an estate planning attorney.

Health

- What doctors do you currently see? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking? Are you able to manage various dosage instructions? Do you have any notable side effects? At what pharmacy do you get your prescriptions filled?
- What health insurance do you have? In addition to Medicare, which starts at age 65, find out if your parents have or should consider Medigap insurance — a private policy that covers many costs not covered by Medicare. You may also want to discuss the need for long-term care insurance, which helps pay for extended custodial or nursing home care.
- Do you have an advance medical directive? This document expresses your parents' wishes regarding life-support measures, if needed, and designates someone who will communicate with health-care professionals on their behalf. If your parents do not want heroic life-saving measures to be undertaken for them, this document is a must.

Living situation

- Do you plan to stay in your current home for the foreseeable future, or are you considering downsizing?
- Is there anything I can do now to make your home more comfortable and safe? This might include smaller projects such as installing hand rails and night lights in the bathroom, to larger projects such as moving the washing machine out of the basement, installing a stair lift, or moving a bedroom to the first floor.
- Could you benefit from a weekly or monthly cleaning service?
- Do you employ certain people or companies for home maintenance projects (e.g., heating contractor, plumber, electrician, fall cleanup)?

Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific requests or wishes for your memorial service?



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Why is it important to factor inflation into retirement planning?

Inflation is one of the key factors you will need to consider when planning for retirement. Not only will the cost of living rise while you're accumulating assets for retirement, but it will continue to rise *during* your retirement, which could last 25 years or longer. This, combined with the fact that you will not likely earn a paycheck during retirement, is the main reason your portfolio needs to maintain at least some growth potential for the duration of your retirement.

Consider this: If inflation runs at 3% (which is approximately its long-term average, as measured by the Consumer Price Index), the purchasing power of a given sum of money would be cut in half in 23 years. If it averages 4%, your purchasing power would be cut in half in 18 years.

A simple example illustrates the impact of inflation on retirement income. Assuming a consistent annual inflation rate of 3%, if \$50,000 satisfies your retirement income needs this year, you'll need \$51,500 of income next year to meet the same income needs. In 10 years, you'll need about \$67,195 to equal the

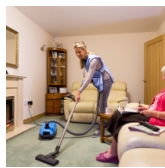
purchasing power of \$50,000 this year. And in 25 years, you'd need nearly \$105,000 just to maintain that purchasing power!¹

Keep in mind that even a 3% long-term average inflation rate conceals periods of skyrocketing prices, such as in the late 1970s and early 80s, when inflation reached double digits. Although consumer prices have been relatively stable in more recent decades, there's always the chance that unexpected shocks could cause prices to spike again.

So how do you strive for the returns you'll need to outpace inflation by a wide enough margin both before and during retirement? The key is to consider investing at least some of your portfolio in growth-oriented investments, such as stocks.²

¹ This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Note that these figures exclude the effects of taxes, fees, expenses, and investment returns in general.

² All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.



Is a nursing home the only option for long-term care?

If you or a loved one needs long-term care, other choices besides nursing home care may be available. Here are some of the other options.

the cost for materials and labor.

Subsidized senior housing

There are federal and state programs that help pay for housing for some older people with low to moderate incomes. Some of these housing programs also offer help with meals and other activities like housekeeping, shopping, and laundry. Residents usually live in their own apartments in the complex. Rent payments are usually a percentage of your income.

Assisted-living facilities

These facilities generally provide more services than offered in subsidized senior housing. You may receive help with bathing, dressing, using the bathroom, taking your medications, and getting to appointments. Residents often live in an apartment and may share meals in a common dining room. Social and recreational activities are usually provided. Some of these facilities have health services on site.

A nursing home may not be your only choice. Discharge planners and social workers in hospitals and home health agencies can explain your options and help arrange your care.

Home care

Most people would prefer to stay in their homes as long as possible. Depending on your needs, you may only need help with some common daily living activities such as laundry, shopping, cooking, and cleaning. First, talk to your family to see if they can help with your needs. There are probably home health-care agencies that can assist you with some of these chores.

Accessory dwelling units

If you or a loved one owns a single-family home, adding an accessory dwelling unit (ADU) to that home may help you keep your independence while getting some help with your daily activities. An ADU, or "in-law apartment," usually provides a separate living space with a sleeping area, a place to cook, and a bathroom. Check with your local zoning office to be sure ADUs are allowed in your area. Also, the cost of adding an ADU can vary widely, depending on the size of the unit and

