FINANCIAL ink

Your Money Management Newsletter

TARANTO FINANCIAL SERVICES & CPAs

1263 Route 31 • Lebanon, NJ 08833

(908) 730-7211 • Fax (908) 735-5524

Email: gtaranto@americanportfolios.com

www.TarantoAssociates.com

Gregory Taranto, *CPA*

Gen X Not So Happy with Health Plans

In a survey of consumer satisfaction with health-care plans, Gen Xers were generally less satisfied than millennials and baby boomers. This may be because this age group is more likely to have both children and adults in the family who need health care.

Percentage who are extremely or very satisfied

	Overall satisfaction with health plan	Quality of care	Choice of doctors	Out-of-pocket prescription costs	Other out-of-pocket costs
Millennials	56%	66%	68%	53%	42%
Generation X	47%	61%	62%	44%	31%
Baby boomers	55%	69%	73%	45%	36%

Source: Employee Benefit Research Institute, 2018

86%

Percentage of families with a college student in 2017 who said they had known when the student was preschool age or younger that he or she would attend college. Despite this advanced knowledge, only 42% had a plan to pay for college. Families who decided later that the student would attend college were even less likely to have a plan.

Source: Sallie Mae, 2017

Practical insights for your **FINANCIAL GOALS**

Risk Tolerance Is About You, Not the Market

Surveys show that tolerance for investment risk rises and falls with the stock market. In mid-2008, 36% of mutual fund investors said they were willing to accept substantial or above-average risk for the potential of substantial or above-average gain. The percentage plunged to 30% the following year, when the market hit its recession-era low, and dropped to 28% by 2012. Since then it has trended slowly upward to 34% in 2017.[1]

It's not surprising that investors feel more bold when the market is booming and more cautious when it is down, but this behavior can be counterproductive. You might invest too heavily in riskier investments when prices are high and sell when prices have dropped, taking a loss and leaving you out of potential gains when the market rises again. If you become overly cautious and choose only low-risk investments with little potential for gain, your savings may not keep pace with inflation over the long term.

Your risk tolerance should be a fundamental component of your investment strategy, based on your own situation rather than market performance. Your tolerance may drive some of the decisions you make when the market rises and falls, but it should only change as your own circumstances change. Here are some factors to consider.

- **Your time frame.** In general, younger people can take higher risk because they have longer to recover from potential losses and to benefit from potential gains. However, if you have a more immediate goal, such as saving for college, your time frame may be shorter than if you were focusing primarily on retirement.
- **Your goals.** You may have to assume more risk if you anticipate an expensive retirement lifestyle. However, be careful not to assume too much risk just because you want to spend more.
- **Other sources of income.** If you are confident that you will receive retirement income from another source, such as a pension, a business, or an inheritance, you may be able to assume more investment risk. It's generally not wise to place too much emphasis on Social Security in your calculations.
- **Your investor personality.** Regardless of other factors, you have to feel comfortable with the risk you are taking. Will the risk of an investment substantially increase your stress level? If the answer is yes, you may be better off choosing a less risky investment.

Risk tolerance varies from person to person, and there is no right or wrong or one-size-fits-all approach. The key is to consider the factors that could affect your own risk tolerance and to make informed investment decisions appropriate for your situation.

All investments involve some degree of risk, and there is no guarantee that any investment strategy will be successful. The return and principal value of stocks and mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

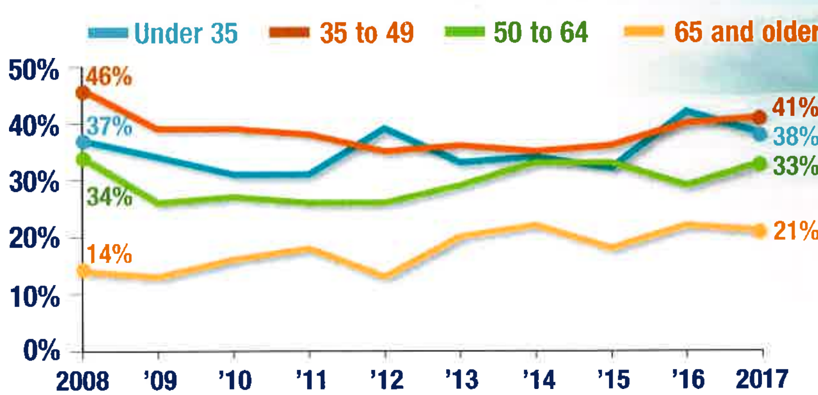
Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) Investment Company Institute, 2017

Ages and Attitudes

Risk tolerance for all age groups fell during the recession, but it dropped the least for investors age 65 and older and now surpasses pre-recession levels (although it is still lower than for other age groups). This might reflect a focus on pursuing long-term asset growth for longer retirements.

Percentage of mutual fund investors willing to take substantial or above-average risk, by age group



Source: Investment Company Institute, 2017

Insurance with Potential Cash Value

The simplest and most cost-effective type of life insurance is generally term insurance, which provides coverage for a specified number of years, as long as you pay the premiums, and pays a death benefit if you die within that term. A term policy has no other value and is separate from your savings and investments.

Universal life and variable universal life insurance are more complex products that combine a death benefit with a tax-advantaged savings element. A portion of the premium pays for the pure cost of insurance. The remainder is invested with the potential to build cash value on a tax-deferred basis.

Guaranteed or Variable?

A universal life (UL) policy premium is invested in the insurance company's general investment portfolio. Most UL policies pay a minimum guaranteed rate of return and may offer returns above the guaranteed minimum depending on the performance of the insurance company's portfolio. The policyholder has no control over these investments. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing company.

With a variable universal life (VUL) policy, you can choose to invest your cash value in a variety of investment options. The value of your policy has the potential to grow more quickly, but it is also subject to greater risk. The investment return and principal value of the investment options will fluctuate. If your investments do not perform well, your cash value and the death benefit (which are not guaranteed) may decrease.

Flexibility for Changing Circumstances

You can vary the frequency and amount of premium payments for both types of policies, as well as increase or decrease the death benefit (subject to underwriting for increases). For example, if your financial situation improves, you can increase your premiums and build up the cash value more rapidly.

On the other hand, if you face a financial strain, you can reduce your premiums or possibly deduct premium payments from the cash value. Many policies can be structured so that the invested cash value will eventually cover the premiums. Of course, the premium will affect the rate at which your cash value accumulates. A reduced premium may also reduce the death benefit, depending on the policy and cash value.

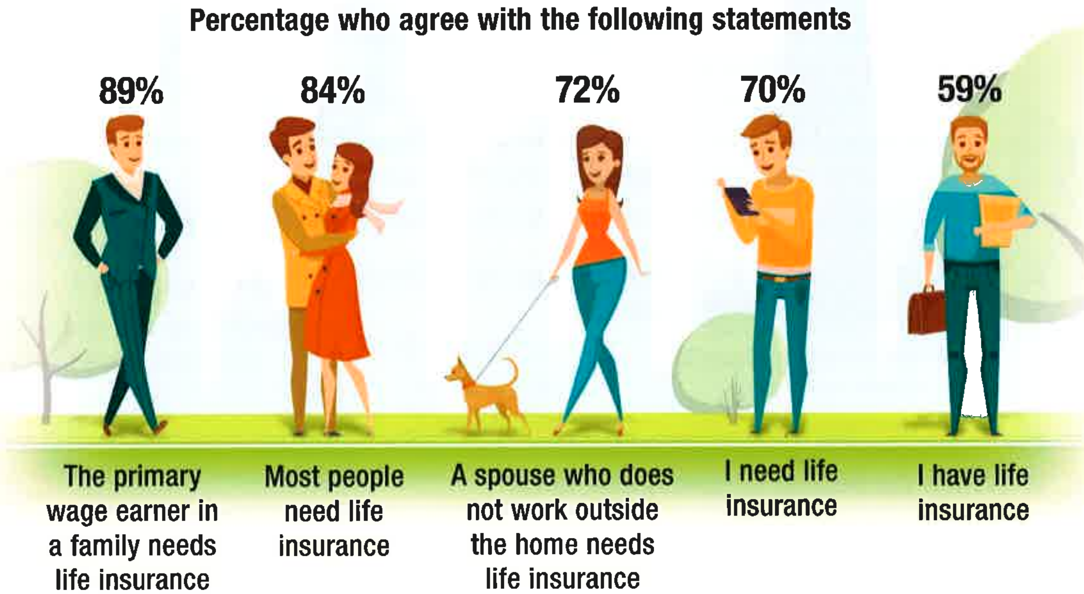
You can generally make tax-free withdrawals, up to the amount paid in premiums, or borrow against the accumulated cash value. Although policy loans accrue interest, they are free of income tax as long as they are repaid, and they usually do not impose a set schedule for repayment. When policy loans, withdrawals, and investment losses reduce the policy's cash value and death benefit, additional premium payments may be required to keep the policy in force.

There are contract limitations, fees, and charges associated with UL and VUL insurance in addition to premiums. They can include mortality and expense charges, account fees, investment management fees, administrative fees, and charges for optional benefits. If a policy is surrendered prematurely, there may be surrender charges and income tax implications. VUL investment options are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association.

Variable universal life is sold by prospectus. Please consider the investment objectives, risks, charges, and expenses before investing. The prospectus, which contains this and other information about the variable universal life insurance policy and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Need vs. Action

Many people who believe they need life insurance don't actually own a policy.



Source: 2017 Insurance Barometer Study, Life Happens and LIMRA

An Interesting Quiz

The Federal Open Market Committee (FOMC) appears committed to raising interest rates gradually. This may be a good time to test your knowledge of interest rates and how they can affect the economy and your personal finances.

1. The FOMC influences interest rates by adjusting the federal funds rate. What is the federal funds rate?
   - A) the rate banks charge to their best commercial customers
   - B) the rate banks charge each other for overnight loans
   - C) the rate the Federal Reserve charges for loans to banks
   - D) the rate the Federal Reserve pays to banks for loans

2. Which of the following interest rates are most directly affected by changes to the federal funds rate?
   - A) prime rate
   - B) credit-card rates
   - C) mortgage rates
   - D) A and B
   - E) A and C
   - F) B and C

3. Why is the Federal Reserve raising rates?
   - A) to stimulate the economy
   - B) to control inflation
   - C) Both
   - D) Neither

4. When interest rates rise, the value of _____ bonds generally decreases.
   - A) corporate
   - B) Treasury
   - C) existing
   - D) new

5. Which types of bonds tend to be most sensitive to changing interest rates?
   - A) short-term
   - B) intermediate-term
   - C) long-term
   - D) municipal

The principal value of bonds may fluctuate with market conditions. Investments seeking to achieve higher yields also involve a higher degree of risk.

Answers

1. B) the rate banks charge each other for overnight loans. Banks must maintain reserves on deposit with the Federal Reserve and loan each other funds overnight to meet these requirements.

2. D) A and B. The prime rate (the rate banks charge for loans to their best commercial customers) typically moves directly with the federal funds rate, and most variable credit card rates are tied directly to the prime rate. Mortgage rates may be affected, but they generally do not move directly with the federal funds rate.

3. B) to control inflation. Inflation has remained below the Fed's 2% target rate through March 2018, so it seems that recent rate hikes are aimed at returning interest rates to a more typical historical range while guarding against future inflation.

Source: Federal Reserve, 2018

4. C) existing. Because investors can buy new bonds with higher rates, existing bonds typically lose value if sold on the secondary market. If you hold a bond to maturity, you should receive the original principal and the interest as long as the issuer does not default.

5. C) long-term. Generally, the further out the maturity date, the greater the potential for events to occur that have a positive or negative effect on a bond's value.

Are you comfortable with the level of risk in your portfolio? Have you evaluated your life insurance needs and coverage? Call us for an appointment today.

Working toward a better financial future,