



BEACON FINANCIAL

FINANCIAL EDUCATION



SAVING OR INVESTING: IS THERE A DIFFERENCE?

Financially speaking, the terms “saving” and “investing” are often used interchangeably. But the concepts behind these terms actually have some important differences. Understanding these differences and taking advantage of them may help you in working toward financial goals for you and your family.

Saving

You may want to set aside money for a specific, identifiable expense. You park this money someplace relatively safe and liquid so you can get the amount you want when you need it. According to the Securities and Exchange Commission brochure *Saving and Investing*, “savings are usually put into the safest places, or products, that allow you access to your money at any time. Savings products include savings accounts, checking accounts, and certificates of deposit.” Some deposits may be insured (up to \$250,000 per depositor, per insured institution) by the Federal Deposit Insurance Corporation or the National Credit Union Administration. Savings instruments generally earn interest. However, the likely tradeoff for liquidity and security is typically lower returns.

Investing

While a return of your money may be an important objective, your goal might be to realize a return on your money. Using your money to buy assets with the hope of receiving a profit or gain is generally referred to as investing. Think of investing as

putting your money to work for you—in return for a potentially higher return, you accept a greater degree of risk. With investing, you don’t know whether or when you’ll realize a gain. The money you invest usually is not federally insured. You could lose the amount you’ve invested (e.g., your principal), but you also have the opportunity to earn more money, especially compared to typical savings vehicles.

The investment is often held for a longer period of time to allow for growth. It is important to note, though, that all investing involves risk, including the loss of principal, and there is no assurance that any investing strategy will be successful.

What’s the difference?

Whether you prefer to use the word “saving” or “investing” isn’t as important as understanding how the underlying concepts fit into your financial strategy. When it comes to targeting short-term financial goals (e.g., making a major purchase in the next three years), you may opt to save. For example, you might set money aside (i.e., save) to create and maintain an emergency fund to pay regular monthly expenses in the event that you lose your job or become disabled, or for short-term objectives like buying a car or paying for a family vacation. You might consider putting this money in a vehicle that’s stable and liquid. Think of what would happen if you were to rely on investments that suddenly lost value shortly before you needed the funds for your purchase or expense. Saving generally may not be the answer for longer-term goals. One of the primary

reasons is inflation—while your principal may be stable, it might be losing purchasing power. Instead, you may opt to purchase investments to try to accumulate enough to pay for large future expenses such as your child’s college or your retirement. Generally, saving and investing work hand in hand. For instance, you may save for retirement by investing within an employer retirement account.

Why is it important?

Both saving and investing have a role in your overall financial strategy. The key is to balance your saving and investing with your short- and long-term goals and objectives. Overemphasize saving and you might not achieve the return you need to pursue your long-term goals. Ignore saving and you increase the risk of not being able to meet your short-term objectives and expenses. Get it right and you increase your chances of staying on plan.



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888-610-2239

info@beacon-financial.com

www.beacon-financial.com

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FOUR LESSONS GRANDPARENTS AND GRANDCHILDREN CAN LEARN TOGETHER

If you're a grandparent, maintaining a strong connection with your grandchildren is important, but that may become harder over the years as they leave for college or become busier building their careers and families. While they're just starting out financially, you have a lifetime of experience. Although you're at opposite ends of the spectrum, you have more in common than you think. Focusing on what you can learn together and what you can teach each other about financial matters may help you see that you're not that different after all.

1. Saving toward a financial goal

When your grandchildren were young, you may have encouraged them to save by giving them spare change for their piggy banks or slipping a check into their birthday cards. Now that they're older, they may have trouble saving for the future when they're focused on paying bills. They may want and need advice, but may not be comfortable asking for it. You're in a good position to share what experience has taught you about balancing priorities, which may include saving for short-term goals such as a home down payment and long-term goals such as retirement. You'll also learn something about what's important to them in the process. You may even be willing and able to give money to your grandchildren to help them target their goals. While you can generally give up to \$14,000 per person per year without being subject to gift tax rules, you may want to explore the idea of offering matching funds instead of making an outright gift. For example, for every dollar your grandchild is able to save toward a specific goal, you match it, up to whatever limit you decide to set. But avoid giving too much. No matter how generous you want to be, you should prioritize your own retirement.

2. Weathering market ups and downs

Your grandchildren are just starting out as investors, while you have likely been in the market for many years and lived through more than one challenging economic climate. When you're constantly barraged by market news, it's easy to become too focused on short-term results; however, the longer-term picture is also important. As the market goes up, novice investors may become overly enthusiastic, but when the market goes down they may become overly discouraged, which can lead to poor decisions about buying and selling. Sharing your perspective on the historical performance of the market and your own portfolio may help them learn to avoid making decisions based on emotion. Focusing on fundamentals such as asset allocation, diversification, and tolerance for risk can remind you both of the wisdom of having a plan in place to help you weather stormy market conditions.

Note: *Asset allocation and diversification do not guarantee a profit or protect against investment loss. Past performance is no guarantee of future results.*

3. Using technology wisely

Some people avoid the newest technology because they think the learning curve will be steep. That's where your grandchildren can help. With their intuitive understanding of technology, they can introduce you to the latest and greatest financial apps and opportunities, including those that may help you manage your financial accounts online, pay your bills, track investments, and stay in touch with professionals. Unfortunately, as the use of technology has grown, so have scams that target individuals young and old. Your grandchildren might know a lot about using technology, but you have the

experience to know that even financially savvy individuals are vulnerable. Consider making a pact with your grandchildren that if you are asked for financial information over the phone, via email, or online (including account or Social Security numbers); asked to invest in something that promises fast profits; or contacted by a person or business asking for money, you will discuss it with each other and with a trusted professional before taking action.

4. Giving back

Another thing you and your grandchildren might have in common is that you want to make the world a better place. Perhaps you are even passionate about the same special causes. If you live in the same area, you might be able to volunteer together in your community, using your time and talents to improve the lives of others. But if not, there are plenty of ways you can give back together. For example, you might donate to a favorite charity, or even find the time to take a "volunteer vacation." Traveling together can be an enjoyable way for you and your grandchildren to bond while you meet other people across the country or globe who share your enthusiasm. Many vacations don't require experience, just a willingness to help--and learn--something you and your grandchildren can do together.



According to a Pew Research study, there are some significant differences between members of the Millennial generation (born 1981-96) and the Silent generation (born 1928-45).

- 68% of men and 63% of women in the Millennial generation are employed, compared with 78% of men and 38% of women in the Silent generation when they were young.
- 68% of Millennial generation members have never been married, compared with 32% of Silent generation members when they were the same age.
- 21% of men and 27% of women in the Millennial generation have at least a bachelor's degree, compared with only 12% of men and 7% of women in the Silent generation when they were young.

Source: "How Millennials today compare with their grandparents 50 years ago," Pew Research Center, Washington, D.C. (March 19, 2015), pewresearch.org.



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NEARING RETIREMENT? TIME TO GET FOCUSED

If you're within 10 years of retirement, you've probably spent some time thinking about this major life change. The transition to retirement can seem a bit daunting, even overwhelming. If you find yourself wondering where to begin, the following points may help you focus.

Reassess your living expenses

A step you will probably take several times between now and retirement--and maybe several more times thereafter--is thinking about how your living expenses could or should change. For example, while commuting and dry cleaning costs may decrease, other budget items such as travel and health care may rise. Try to estimate what your monthly expense budget will look like in the first few years after you stop working. And then continue to reassess this budget as your vision of retirement becomes reality.

Consider all your income sources

Next, review all your possible sources of income. Chances are you have an employer-sponsored retirement plan and maybe an IRA or two. Try to estimate how much they could provide on a monthly basis. If you are married, be sure to include your spouse's retirement accounts as well. If your employer provides a traditional pension plan, contact the plan administrator for an estimate of your monthly benefit amount. Do you have rental income? Be sure to include that in your calculations. Is there a chance you may continue working in some capacity? Often retirees find that they are able to consult, turn a hobby into an income source, or work part-time. Such income can provide a valuable

cushion that helps retirees postpone tapping their investment accounts, giving them more time to potentially grow. Finally, don't forget Social Security. You can get an estimate of your retirement benefit at the Social Security Administration's website, ssa.gov. You can also sign up for a my Social Security account to view your online Social Security Statement, which contains a detailed record of your earnings and estimates of retirement, survivor, and disability benefits.

Manage taxes

As you think about your income strategy, also consider ways to help minimize taxes in retirement. Would it be better to tap taxable or tax-deferred accounts first? Would part-time work result in taxable Social Security benefits? What about state and local taxes? A qualified tax professional can help you develop an appropriate strategy.

Pay off debt, power up your savings

Once you have an idea of what your possible expenses and income look like, it's time to bring your attention back to the here and now. Draw up a plan to pay off debt and power up your retirement savings before you retire.

Why pay off debt? Entering retirement debt-free--including paying off your mortgage--will put you in a position to modify your monthly expenses in retirement if the need arises. On the other hand, entering retirement with mortgage, loan, and credit card balances will put you at the mercy of those monthly payments. You'll have less of an opportunity to scale back your spending

if necessary.

Why power up your savings? In these final few years before retirement, you're likely to be earning the highest salary of your career. Why not save and invest as much as you can in your employer-sponsored retirement savings plan and/or your IRAs? Aim for the maximum allowable contributions. And remember, if you're 50 or older, you can take advantage of catch-up contributions, which allow you to contribute an additional \$6,000 to your employer-sponsored plan and an extra \$1,000 to your IRA in 2016.

Account for health care

Finally, health care should get special attention as you plan the transition to retirement. As you age, the portion of your budget consumed by health-related costs will likely increase. Although Medicare will cover a portion of your medical costs, you'll still have deductibles, copayments, and coinsurance. Unless you're prepared to pay for these costs out of pocket, you may want to purchase a supplemental insurance policy. In 2015, the Employee Benefit Research Institute reported that the average 65-year-old married couple would need \$213,000 in savings to have at least a 75% chance of meeting their insurance premiums and out-of-pocket health care costs in retirement. And that doesn't include the cost of long-term care, which Medicare does not cover and can vary substantially depending on where you live. For this reason, you might consider a long-term care insurance policy. These are just some of the factors to consider as you prepare to transition into retirement. Breaking the bigger picture into smaller categories may help the process seem a little less daunting.

A financial professional can help you estimate how much your retirement accounts may provide on a monthly basis. Your employer may also offer tools to help. Keep in mind, however, that neither working with a financial professional nor using employer-sponsored tools can guarantee financial success.



HOW LONG SHOULD I KEEP FINANCIAL RECORDS?

There's a fine line between keeping financial records for a reasonable period of time and becoming a pack rat. A general rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. But if a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely. It's ultimately up to you to determine which records you should keep on hand and for how long, but here's a suggested timetable for some common documents.

One year or less	More than one year	Indefinitely
Bank or credit union statements	Tax returns and documentation*	Birth, death, and marriage certificates
Credit card statements	Mortgage contracts and documentation	Adoption papers
Utility bills	Property appraisals	Citizenship papers
Annual insurance policies	Annual retirement and investment statements	Military discharge papers
Paycheck stubs	Receipts for major purchases and home improvements	Social Security card

*The IRS requires taxpayers to keep records that support income, deductions, and credits shown on their income tax returns until the period of limitations for that return runs out—generally three to seven years, depending on the circumstances. Visit irs.gov or consult your tax professional for information related to your specific situation.

WHAT ARE SOME TIPS FOR ORGANIZING FINANCIAL RECORDS?

Organizing your financial records is a cyclical process rather than a one-time event. You'll need to set up a system that helps you organize incoming documents and maintain existing files so that you can easily find what you need. Here are a few tips.

Create your system: Where you should keep your records and documents depends on how quickly you want to be able to access them, how long you plan to keep them, and the number and type of records you have. A simple set of labeled folders in a file cabinet may be fine, but electronic storage is another option for certain records if space is tight or if you generally choose to receive and view records online. No matter which storage option(s) you choose, try to keep your records in a central location.

File away: If you receive financial statements through the mail, set up a collection point such as a folder or a basket. Open and read what you receive, and decide whether you can file it or discard it. If you receive statements electronically, pay attention to any notifications you receive. Once you get in a routine, you may find that keeping

your records organized takes only a few minutes each week.

Purge routinely: Keeping your financial records in order can be even more challenging than organizing them in the first place. Let the phrase "out with the old, in with the new" be your guide. For example, when you get this year's auto policy, discard last year's. When you receive an annual investment statement, discard the monthly or quarterly statements you've been keeping. It's a good idea to do a sweep of your files at least once a year to keep your filing system on track (doing this at the same time each year may be helpful). Think safety: Don't just throw hard copies of financial paperwork in the trash. To protect sensitive information, invest in a good quality shredder and destroy any document that contains account numbers, Social Security numbers, or other personal information. If you're storing your records online, make sure your data is encrypted. Use strong passwords, and back up any records that you store on your computer.

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888-610-2239 | info@beacon-financial.com | www.beacon-financial.com

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