MONEY MATTERS

Friday, February 2013 | A SPECIAL SUPPLEMENT TO

CLINTON HERALD

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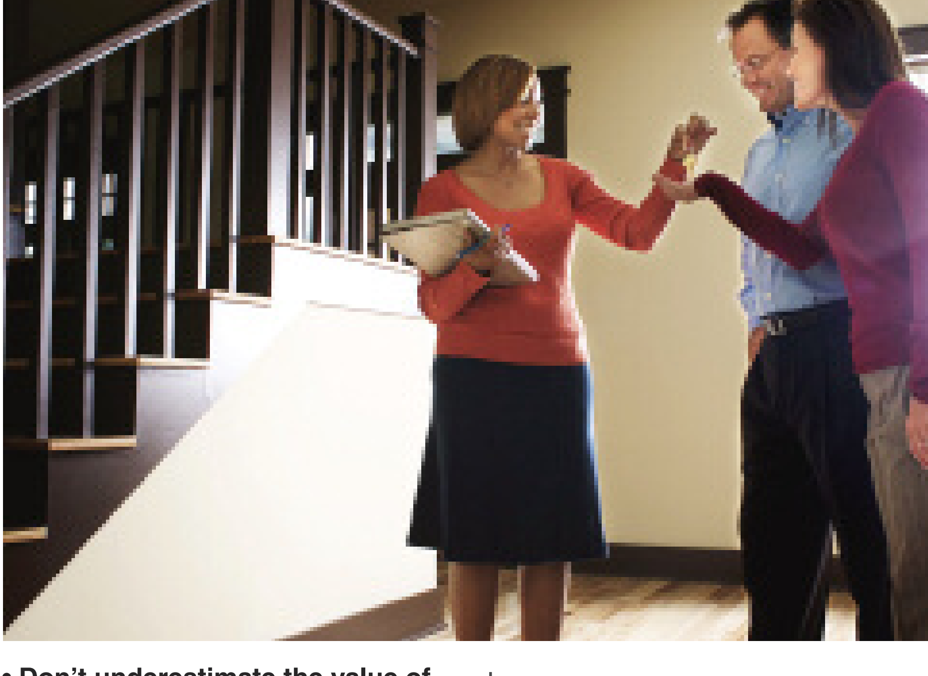
Rules of thumb for first-time home buyers



Enlisting the services of a professional real estate agent is one way first-time home buyers can make the process less stressful.

A home purchase is the biggest investment many people will ever make. Though the housing market can fluctuate, prospective homeowners still look at home ownership as a way to secure their financial futures while also putting a roof over their heads.

Because it is such a significant investment, the home buying process can be intimidating, especially for first-time home buyers. But even though the housing market can be unpredictable, there are some things that prospective buyers should know regardless of whether it's a buyer's or seller's market when they begin their search.

• Be ready to commit to a location. Buying a home is not like renting an apartment. If renters need to break a lease, they might be able to do so at little or no cost to them. In addition, many renters sign a 12-month lease, which gives them some flexibility with regard to moving should they need to relocate for a new job or simply decide they need a more accommodating living arrangement.

That flexibility is far more costly to home buyers, who must pay transaction costs when buying or selling a home. Those fees can be considerable, so prospective home buyers should be ready to make a long-term commitment to living in the area where they're searching for a home. Buyers may end up losing money if they're forced to sell shortly after buying a home. But even those who break even will be stuck with costly transaction fees at least twice in a short period of time.

• Address bad credit. Unless a buyer can afford to buy a home with cash, the buyer will need a mortgage to purchase a home. Mortgages come with an interest rate, which will be higher for those with poor credit scores and histories than those with solid ones. Buying a home is not an overnight process, but one that should begin long before buyers look at any properties. The best way to begin the home-buying process is for a buyer to obtain a copy of his or her credit report, examine it to make sure it is accurate and then work to raise that credit score to a level that makes one attractive to prospective lenders. A low interest rate can save you thousands of dollars over the course of a typical 30-year mortgage, and a credit score and history goes a long way toward determining what that interest rate will ultimately be.

• Be ready to put down 20 percent. When buying a home, first-time buyers might be surprised to learn the down payment is typically 20 percent of the cost of the home. That down payment does not include transaction fees, closing costs or the often considerable cost of moving into the home. So buyers hoping to purchase a $400,000 home should be ready to pay an $80,000 down payment. While it's possible to qualify for a low-interest mortgage that allows buyers to make a smaller down payment, a smaller down payment will also result in a higher monthly mortgage payment. For those who aren't prepared to put down 20 percent, it might be in their best interests to put off the home-buying process until they can comfortably afford to do so.

• Don't underestimate the value of a real estate agent. Veteran home buyers might be confident that they can navigate the home-buying process on their own. However, first-time buyers should enlist the help of a professional real estate agent, ideally one who specializes in buying homes. A real estate agent can help make the process less stressful and provide valuable advice as to where to look for a home, how to make an offer and a host of other suggestions first-time buyers may not be knowledgeable about.

• Buy a home in a good school district. A good school district isn't just beneficial for home buyers with children. Buyers who don't have children and don't plan to have children should still look for a home in a good school district, as numerous studies have shown buyers will pay more for a home that's in a good school district. Good schools help maintain demand for property, and consistent demand should ensure a property appreciates in value over time, making a home in a good school district a better investment than a home in a bad school district.

• Get pre-approved. Many first-time buyers fail to get pre-approved before beginning their search for a home. Failing to get pre-approved means buyers won't know how much lenders feel they can afford, and buyers may spend lots of time looking at homes they like but will never be able to buy. Pre-approval also enables buyers to more easily make an offer when they find a home they like.

Buying a home can be both frustrating and fun. First-time buyers should employ a few time-tested tricks of the trade to ensure the process goes as smoothly as possible.

Edward Jones Named a 2013 National Top Workplace

Ranked No. 16 nationwide in largest survey of American workers of its kind

CLINTON — Financial-services firm Edward Jones was named one of America's Top Workplaces by WorkplaceDynamics, according to Tom Timion, and Jerry Kedley, Edward Jones Financial Advisor's in Clinton.

Edward Jones was ranked No. 16 nationwide among 872 organizations with more than 1,000 employees that participated in regional top workplaces programs.

The National Top Workplaces list was determined solely by feedback gathered through an objective employee survey. The survey was conducted by WorkplaceDynamics, LLP, the leading on-demand employee survey provider, in conjunction with 30 leading regional newspapers.

The survey uses a proprietary set of 22 questions to rank companies. The survey data showed that employees most want to work at companies with high levels of organizational health. Companies that set a clear direction for their future, execute well and bring real meaning to work are the healthiest, according to the survey.

Details about the National Top Workplaces, a full list of the Top 150 companies, the survey methodology, and factors that drive organizational health are available at www.topworkplaces.com.

Earlier this month, Edward Jones was named to FORTUNE magazine's "100 Best Companies to Work for 2013."

Edward Jones provides financial services for individual investors in the United States and, through its affiliate, in Canada. Every aspect of the firm's business, from the types of investment options offered to the location of branch offices, is designed to cater to individual investors in the communities in which they live and work. The firm's 12,000-plus financial advisors work directly with nearly 7 million clients to understand their personal goals — from college savings to retirement — and create long-term investment solutions that emphasize a well-balanced portfolio and a buy-and-hold strategy. Edward Jones embraces the importance of building long-term, face-to-face relationships with clients, helping them to understand and make sense of the investment options available today.

In January 2013, for the 14th year, Edward Jones was named one of the best companies to work for by FORTUNE Magazine in its annual listing. The firm ranked No. 8 overall. These 14 FORTUNE rankings include 10 top-10 finishes, consecutive No. 1 rankings in 2002 and 2003, and consecutive No. 2 rankings in 2009 and 2010. FORTUNE and Time Inc. are not affiliated with and do not endorse products or services of Edward Jones.

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Signs you may be heading for substantial

Many men and women with heavy debt are vague when asked to describe how they got there, often expressing a notion that the debt seemingly piled up overnight. Though it's possible to incur a substantial amount of debt in a short period of time, many debtors witness their financial pitfalls gradually increase, with interest rates adding up over time.

Men and women who know their debts didn't occur overnight may have missed the warning signs that they were heading for financial trouble. The following are a few signs that your problem with debt might be on the way to spiraling out of control.

• **Minimum payments:** Every credit card statement includes the outstanding balance as well as the minimum payment due. In addition, statements now include a forecast of when the debt will be paid in full if consumers make only the minimum payment, and those with substantial debt may notice that they won't be paying off their debts any time soon if they only make the minimum payment. Men and women who can only afford to make the minimum payment on an outstanding balance should recognize that as a warning sign that they are carrying too much debt and should begin an analysis of their finances immediately before that debt gets out of control.

• **Frequent use of credit:** Using credit wisely is a great way to build your financial reputation. But using credit poorly can do significant harm to your reputation, affecting your ability to rent an apartment, finance a vehicle or secure a home loan, among other things.

If you find yourself using credit to make purchases you should be making with cash (or a debit card), such as fast food, your morning coffee or monthly utilities, then you're likely setting yourself up for significant debt in the future. Such purchases have a way of adding up. Before you know it your balance could be higher than you had anticipated and you might have already used your cash supply for other purchases you assumed were affordable. Credit cards should not be used to pay for life's necessities or every day expenditures, as doing so only increases your cost of living when you factor in the interest you will have to pay when using credit to pay for these necessities.

• **Routinely checking balances:** Though it's important to stay on top of your finances, there's a difference between checking your accounts for discrepancies and checking to determine your available balances. The former is responsible, while the latter suggests you may have a problem with impulse spending. If you don't have a general idea of what the balances on your credit cards are and you find yourself frequently checking those balances before making purchases, then consider that a warning that you don't have a handle on your debt.

• **No savings:** One of the most telltale signs that you might be carrying substantial debt, which, thanks to interest charges will likely only increase, is a lack of savings. You should be saving money every pay period. If you're not capable of saving, then your debts are likely exceeding your income, which puts you on a crash course with substantial debt. If you're not saving money but you are still piling up debts with purchases made on credit, expect to face some serious consequences down the road.

Few people can say they have never experienced a problem with debt at least once in their lives. But those who often overcome issues with debt are those who recognized some telltale warning signs that a storm of debt was coming and acted quickly to keep those debts from becoming overwhelming.

Are REITS Right for Your Portfolio?

Real Estate Investment Trusts offer a way for smaller investors to buy into big real estate.

CLINTON — If you dream of emulating Donald Trump but don't have millions to invest in real estate, a Real Estate Investment Trust or REIT can provide some of the upside income potential with a much smaller investment.

Simply put, a REIT is a way for everyday investors to invest in property and real estate. It can be commercial real-estate, apartments, condominiums, homes and other types of property. REITs specifically invest in properties that produce income and pass on the profit to investors in the form of dividends. In fact, REITs must distribute at least 90 percent of any profit to qualify for preferential tax treatment.

REITs come in three major forms. The most common and widely purchased are shares of equity REITs, which invest in commercially managed property that may produce income. This is generally the type of REIT that is referred to when discussing them as an investment tool.

Less common versions of REITS include mortgage REITs, which make loans to owners of real estate or invest in current outstanding mortgages. According to Investopedia.com, these REITs account for less than 10 percent of REITs available today (2012). The final version is a hybrid of the equity REIT and the mortgage REIT and also accounts for a small percentage of REITs. These hybrids combine the mortgage investment of one with the property management of the other.

Most REITs contain numerous properties ranging in size, activity and function. Like portfolio diversification, a REIT's diversification may provide some protection from the ups and downs of individual properties such as occupancy rates, defaults on rents, and downturns in industry sectors or local markets. Specialized REITs hold only specific types of property, such as apartments, commercial office space or retail.

Like other investments, REITs carry the risk of loss of investment. Because they can be a complicated investment product, consult your financial professional before investing to better understand whether REITS are right for your portfolio. Investing in real estate or REITs may not be suitable for all investors and is subject to significant risks. These risks may include limited operating history, potential conflicts of interest, payment of significant fees to affiliated sponsors, advisors and general partners, potential illiquidity and liquidation at less than the original amount invested, and possibility of declining real estate values. Income payments are not guaranteed and subject to the claims paying ability of the company. Investors should carefully consider their investment objectives, risk, charges, and expenses of REITs before investing. For a prospectus and more complete information, including risks, expenses please contact your financial advisor. All investors should obtain a prospectus and read it carefully before investing.

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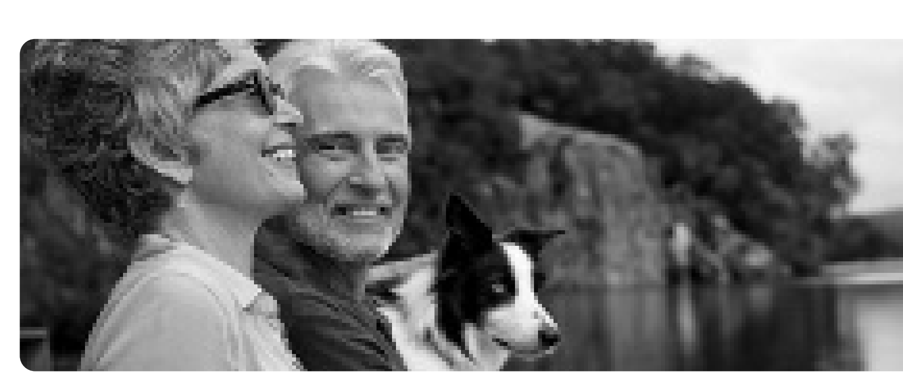

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What to do with your retirement account before the next economic downturn

Investors age 50 and older should begin to reduce the risks associated with their retirement accounts, choosing more stable investments as they age.

A struggling economy can have both instant and longterm consequences. When the economy is suffering, consumers tend to spend less in the short term while making financial decisions that affect them over the long haul.

One of the biggest quandaries men and women face during a recession or economic downturn is how to approach their retirement accounts, most notably a 401(k). When the economy begins to struggle, men and women may notice their 401(k) plans are struggling right along with it, losing money that most were counting for their retirements. This can induce a certain degree of panic, as account holders worry about their financial futures and how they are going to get by should the recession last and their retirement accounts continue to shrink.

But such panic might be unwarranted. According to the investment management firm Vanguard, participant saving and investing behavior had returned to prerecession levels by 2010, and participant account balances actually rose 13 percent between 2005-2010, despite the considerable market shock that occurred during the recession of 2008-2009. Those figures illustrate that even during a particularly bad economic swoon investors will return to their typical behavior sooner rather than later. Therefore it pays to avoid overreacting at the onset of a downturn and maintain your peace of mind.

While some people manage to maintain a cool head during times of economic struggles, others may lose sleep when the next recession or downturn rears its ugly head. To avoid succumbing to such stress, consider the following tips to protect your retirement accounts should the economy once again take a turn for the worse.

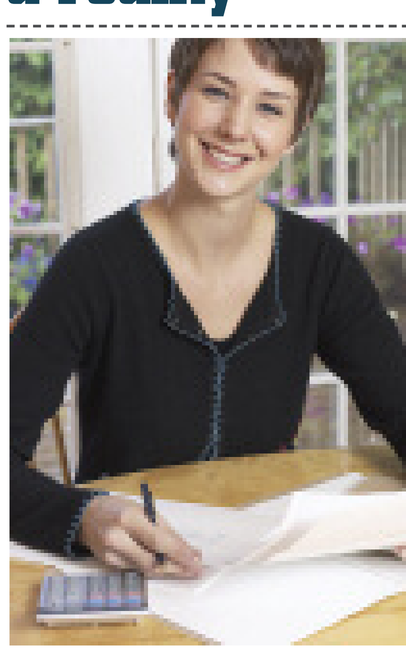
• **Pay attention to your portfolio.** Young people just beginning their professional careers are often told to enroll in a 401(k) program as soon as possible, but to avoid making any changes in the near future once the account has been set up. While no investors, young or old, should allow a knee-jerk reaction after a bad financial quarter to dictate how they manage their retirement accounts, that doesn't mean you should ignore an account entirely. Pay attention to your portfolio, examining it at least once per year so you can make adjustments to your investments if need be. Just don't allow a sudden reaction to a bad quarter dictate these adjustments, which should only be made after a careful examination of your retirement account's portfolio and its performance. If you're happy with the performance, don't change a thing.

• **Reduce your risk as you age.** Financial experts can often predict when the economy will thrive and when it will struggle. But unless you are such an expert, avoid playing with fire. As you age, reduce your risk with regard to your investments. Young people can afford to take on more risk because they have more time to make up for a risk that doesn't work out. Men and women age 50 and older have no such luxury and should reconfigure their retirement accounts as they age so their investments are less risky and more conservative. This strategy should be put to use even if you lost a substantial amount of money during a previous recession or downturn. It might be tempting to try to make up for lost money, but that strategy carries considerable risk, and you might end up depleting your retirement savings a second time.

• **Spread the money around.** When contributing to a retirement account such as a 401(k), the standard is to deposit 6 percent of each paycheck into that account. If you're depositing more than 6 percent into your retirement account, consider decreasing your retirement contribution to the standard amount and depositing the extra money into a high-interest savings account. The savings account won't put your deposits at risk, and if the economy is faring well, you will still be doing well with your 401(k) while ensuring some of your money won't suffer should the economy suddenly take a turn for the worse.

• **Don't cash out too early.** When the economy struggles, many investors have discovered they simply don't have the stomach for investing. That's perfectly understandable with certain investments, but a retirement account should not be one of them. Cashing out a retirement account too early could incur substantial penalties that, if your retirement account was affected poorly by a bad year, may only further deplete an account you likely spent years building. Avoid the temptation to cash out early if your retirement account is struggling. It's often not worth the steep price.

Make early retirement a reality



Retirement is a goal for nearly every working adult. Long considered a time to enjoy the fruits of a life's worth of labors, retirement has become something else entirely over the last several years, when the struggling economy has convinced many aging workers that their opportunity to safely retire may never present itself.

But retirement does not have to feel like a wild goose chase with the end goal nowhere in sight. In fact, many men and women who develop a plan early on can retire early, reaping the rewards of their success at an age when many people are still wondering if they can retire at all, much less retire early.

• **Conduct an immediate audit of your finances.** The road to early retirement begins, quite frankly, very early. If your retirement goal is to retire early, conduct an audit of your financial situation as soon as possible, even if you are a relative newcomer to the professional sector. Examine all of your debts and other liabilities, as well as your income and your potential earnings. It may be difficult to forecast potential earnings, but paint a realistic forecast with regard to your earning potential, and then use that to determine your standard of living and how much money you will need to maintain that standard upon retirement. This should give you an idea of how close or how far you are from early retirement and what you need to start doing now so early retirement can be a reality later on.

• **Don't sell savings short.** Men and women who retire at the traditional retirement age can count on certain benefits that early retirees aren't eligible for. Senior discounts can decrease the cost of living for typical retirees, who can also access retirement accounts like a 401(k) or an IRA without paying a penalty. Younger retirees are not eligible for senior discounts, and accessing a retirement account before a certain age can result in a substantial penalty.

So men and women whose goal is to retire early should not underestimate the value of a healthy savings account. Retiring early will require a more robust savings account than if you were to retire at a more typical age, so calculate how much more you will need to save in order to retire early. Once you have calculated that figure, ask yourself if it's realistic that you can save that money and what effect this increased emphasis on savings may have on your quality of life between now and the day you've targeted for early retirement? If you cannot realistically save enough money or if you have to sacrifice too much to make early retirement happen, then you might want to reconsider this goal.

• **Accept sacrifices.** Making sacrifices with an end goal of early retirement may be easier for younger men and women who have yet to grow accustomed to a certain standard of living. Regardless of their age, however, those who hope to retire early will need to accept that they will have to make certain sacrifices to achieve their goals. These sacrifices can be considerable, such as downgrading to a smaller home, or relatively minor, such as cancelling a cable television subscription, but for the average worker they will be necessary to make early retirement happen. The earlier you can make these sacrifices the easier they will be, as it won't be as hard to sacrifice something you're not used to having. In addition, the earlier you make these sacrifices the quicker you will be on the road to early retirement.

• **Periodically reassess how it's going.** The road to early retirement will have its peaks and valleys, so periodically reassess how your plan is going and if you need to alter the plan in any way to make early retirement a reality. This reassessment should be conducted annually, and you must be completely honest with yourself. If the plan is going off course, determine the cause and if there's anything you can do to catch up or if you need to change your targeted retirement date.

Early retirement is a goal for many people. And despite the uneasiness many people feel with regard to retirement, early retirement can become a reality for diligent men and women who develop a plan and stick to that plan in the years to come.

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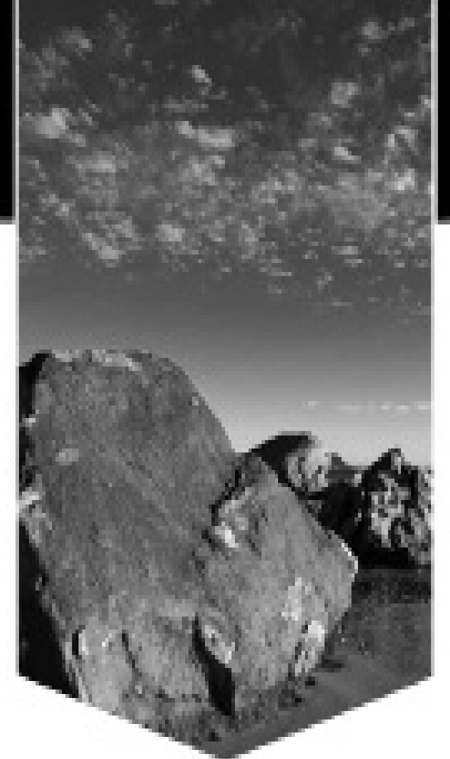

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How to keep healthcare costs manageable

The cost of living is on the rise. Gas, groceries and even healthcare continue to become more expensive.

Healthcare, in particular, has become a burden to many people. The rising costs of medical care and prescriptions is making it difficult for many people to afford adequate healthcare. It's hard not to be impacted by the cost of healthcare, which is on the rise for a variety of reasons:

- reduced contributions from employers into employee healthcare plans;
- increased incidences of medical malpractice suits, which drive up doctors' insurance costs;
- greater involvement by patients in their healthcare choices, with more requests for in-depth testing;
- an aging population requiring more medical care, and
- increased innovations in medical technology.

These factors have made it challenging for many people to keep **healthcare costs manageable. Yet, there are ways to keep healthcare expenses affordable.**

- **Compare plans.** Figure out which plan offers the biggest bang for your buck. Although one person in the relationship may be the proverbial "breadwinner," that doesn't mean his or her health insurance plan is the best option available. Compare your options and choose the best plan for you and your family. If neither is sufficient, decide if purchasing your own insurance with a union affiliation or through a different method would be better.
- **Live a healthier lifestyle.** A sick individual will have to pay more for healthcare. Eat the right foods and maintain a healthy weight. Do not smoke or drink alcohol to excess. Be sure to include exercise in your daily activities.
- **Check for discounts.** Some health plans offer rebates to policy holders who exercise regularly.

Each plan is different, but check your policy for the **details.**

- **Review the explanation of benefits.** Explanation of benefits, or EOBs, are statements provided by your health insurance provider. Make sure they are accurate and void of discrepancies. Report any errors to the insurance company, even if it means singling out a physician who may not be operating truthfully.
- **Participate in incentive programs.** Some insurance providers will offer incentives, such as a points program, for taking surveys or taking part in health-related activities.
- **Use in-network providers.** If you participate in a plan that requires you use network doctors, do so. Otherwise you will have to pay the balance of costs not covered by the insurance company. The same is said for laboratories and testing facilities. Follow the rules of your plan.
- **Ask for generic prescriptions.** You can save by going to certain pharmacies within your plan and also by using generic prescriptions when available.
- **Visit doctors regularly.** Staying healthy and being informed of ailments early on can prevent lengthy hospital stays or more in-depth testing and treatments. Schedule routine physicals and screenings.

There are many different ways to keep costs associated with healthcare down.

Breaking down life insurance

Life insurance is widely considered a necessity for adults with dependents. Married men and women typically purchase a life insurance policy before or shortly after walking down the aisle, though some defer that purchase until they have children. Life insurance can be a significant and important investment, so it's wise for men and women of all ages to consider the following points about life insurance to determine if it's the right move for them.

- **Life insurance is not just for people with dependents.** Conventional wisdom may suggest life insurance is only for people with dependents. However, life insurance is a potentially valuable investment for anyone whether they have dependents or not. Men and women likely won't want to saddle their loved ones who inherit their estate with their debts, outstanding medical bills or funeral expenses, and life insurance can help pay those bills.
- **Peruse any employer life insurance policy.** Many employers pay for life insurance policies for their employees, and such policies may be enough for men and women without dependents and any significant financial obligations. However, employer-paid life insurance policies likely won't be sufficient for men and women with dependents, whether those dependents include a spouse or a spouse and children.
- **Term coverage can prove very expensive.** Some men and women feel term life insurance is a better investment than permanent coverage. However, term coverage can become very expensive as a person ages, so permanent coverage may prove a more practical option. In addition, men and women who choose term coverage should know that certain medical conditions that may arise as you age might be deemed as uninsurable, potentially putting those who will inherit your estate in a precarious financial position upon your death.
- **Even men and women without a job need life insurance coverage.** Many married couples in which only one partner earns a salary assume only the working spouse needs life insurance coverage. However, should the homemaking spouse pass away, the duties that person performed, such as taking care of the home and looking after any kids after school, must now be provided for, and such expenditures, especially after school child care, can be very costly. A life insurance policy can help finance those services.
- **Let your own finances determine how much coverage you need.** When purchasing a life insurance policy, many people use two years' salary as their guideline. However, your personal finances should ultimately dictate how much coverage you will need. Consider how much money is left on your mortgage, your investment portfolio, your spouse's earnings, and all of your assets before deciding how much coverage you need. You may need more or significantly less coverage than the standard suggested by an insurance agency.

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Financial tips for young professionals

Despite an unpredictable economy, today's young professionals can still employ several strategies to secure their financial futures.

Today's young professionals face a future that's perhaps more puzzling than any generation of young people has encountered in decades. An economic stall that has carried on for half a decade coupled with an uncertain job market has made it difficult to anticipate what lies ahead.

Money management is a priority for the young professionals fortunate enough to have found steady employment in a difficult job market. However, many young professionals are unsure about managing their finances once they begin earning their first steady post-college paychecks. The following are a few basic financial tips for young professionals who want to make the most of their money in the years to come.

• **Think retirement.** It might be hard for young people who just started their professional careers to start thinking about retirement. But saving for retirement should begin the moment you accept your first job offer. If your company offers a 401(k) plan, enroll as soon as you're eligible (many companies do not allow new hires to enroll until they've completed a 90-day evaluation period). If you find a company that matches your contributions, that's even better. If the company does not offer a 401(k), then speak to your bank about opening an IRA, or individual retirement account, and set up automatic deposits into that account to coincide with each pay period.

• **Don't go crazy with credit.** Many 30-somethings have horror stories about overusing credit cards in their 20s and fighting to get out of debt for years. Don't fall into that trap. An entry-level position might not pay very well, but don't dig yourself into a hole by living above your means and financing such a lifestyle with credit. It's beneficial to sign up for a credit card once you start working full-time so you can start to establish a credit history that, if you use credit wisely, will help you down the road. But don't go crazy with credit. Instead, use credit cards sparingly and pay balances in full whenever possible.

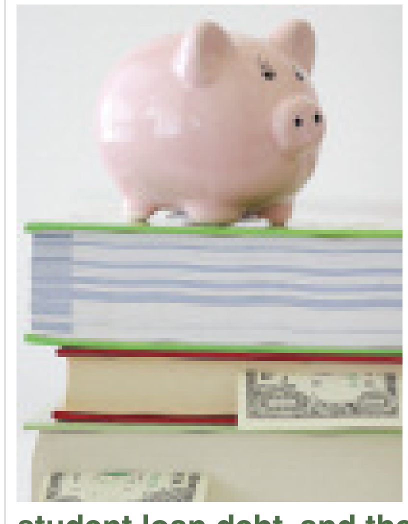
• **Open a savings account.** It might sound simple, and it is, but open a savings account if you don't already have one. Many young professionals fail to open a savings account when they start working, as some may feel a retirement account such as those previously mentioned are enough for saving for the future, while others feel their checking account can double as a savings account. But neither of those approaches are correct. A checking account linked to a debit card means you'll routinely be dipping into your "savings account," while you incur steep penalties for using retirement money should you need to withdraw funds in the case of an emergency. A traditional savings account will earn you interest (many checking accounts do not), help you secure your financial future and ensure you have cash on hand in the case of an emergency.

• **Start repaying your student loans.** Young professionals with student loans to repay should begin repaying those loans as soon as possible. Many student loans afford borrowers a six-month, interest-free window after graduation during which no payments must be made. But when that six-month grace period expires, borrowers must begin repaying those loans or seek a deferment or forbearance. A deferment is a period during which repayment of your loan is temporarily delayed and, depending on the type of loan, the government may pay the interest that accrues during the deferment. A forbearance is for those borrowers who don't qualify for a deferment but still need to delay making payments. A forbearance can typically last as long as 12 months, but during that period interest will accrue on your loans and you will be responsible for paying that interest as well as the loan principle.

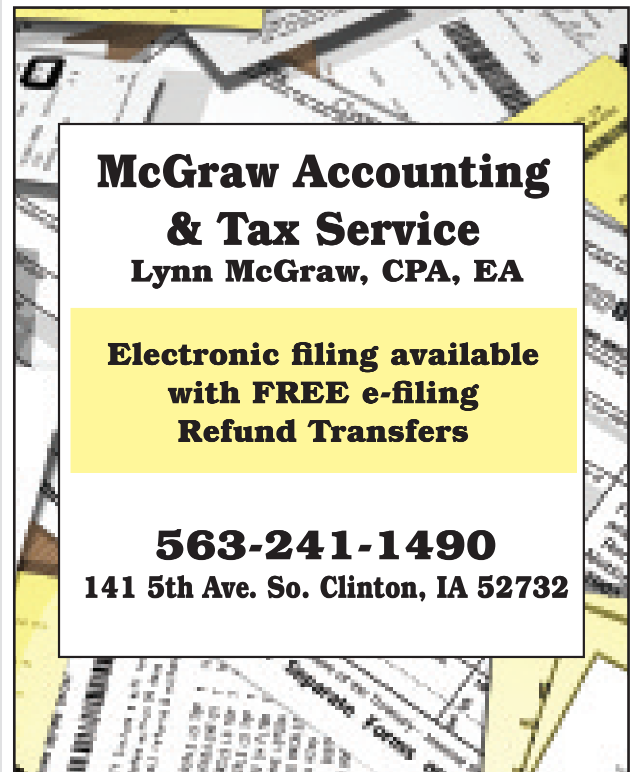
But young professionals should begin repaying their loans as soon as possible, and ideally pay more than the minimum each month to decrease the amount of interest paid over the life of the loan. Making loan payments each month helps build credit history, and the sooner a person starts repaying the sooner he or she will be free of the burden of monthly payments.

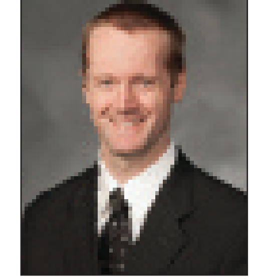
The economic climate many young people are now entering is certainly no walk in the park. But some simple financial strategies can help young professionals establish themselves financially regardless of how weak or strong the economy is.

Did you know?



A study from the Federal Reserve Bank of New York released in May of 2012 indicated that student loan debt is the only form of consumer debt to increase significantly since 2008. According to the study, **40 percent of consumers under the age of 30 have student loan debt, and the average graduate from the class of 2011 owes $23,000.** Student loan debt may not be new, but the increase in mortgage defaults since 2008 have led many risk-averse lenders to scrutinize borrowers more carefully, and substantial student loan debts could make it more difficult for first-time homebuyers, the majority of whom are between the ages of 25 and 34, to secure a loan, or at least secure a loan with a reasonable interest rate. That heightened scrutiny could be one reason that, according to the National Association of Realtors, first-time homebuyers between the ages of 25 and 34 fell from 33 percent of the total market in 2001 to 27 percent of the total market in 2011, the lowest market share in 10 years.





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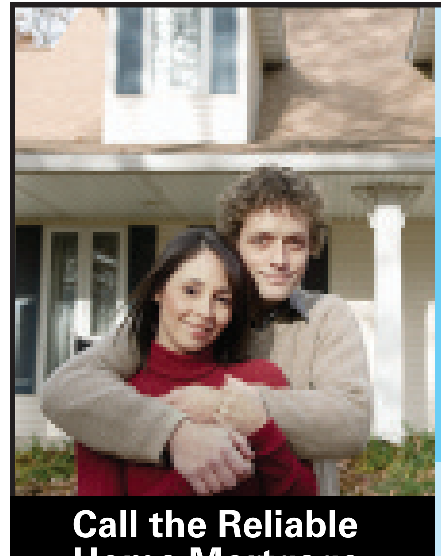

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