



WESLING
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Happy Flag Day!

The Financial Planning Newsletter

Wesling Financial Planning Services

Unbiased Advocates for Your Sound Future

How Not To Go Broke If Your Kids Move Back After Graduation: Do you want to know why it's now very common for graduating seniors to move back to the family house for some time after graduation? Well, today's after-college reality is much different from when I graduated. Two thirds of college graduates owe much more money after graduation. The *Project on Student Debt* reports debt levels for graduating seniors with student loans (from 1997 to 2007) more than doubled from \$9,250 to \$19,200.

That's why. For graduates who don't have ready employment, moving back home is probably a necessity. For those with jobs, moving back home is a way to save for a down payment on a car, or possibly a home of their own.

It's absolutely fine to welcome family back home, particularly if it means you really have an opportunity to help your kids. But it's not a terribly good idea to welcome home what the experts are calling "boomerang kids" if you've put your own retirement savings on the back burner and you're also facing both expense and strain from taking care of elders.

Some clients asked us about this recently, so here are some tips:

- *Promise not to overextend yourself:* Don't let the return of the prodigal son or daughter derail your own retirement or debt repayment plans. As parents, you may also have some challenging financial problems to solve.
- *Still your house, still your rules:* If you want your new grad to pay rent (it's probably a good idea), set those terms in writing. Set terms for household expenses if you prefer.
- *Set an endpoint:* If your child needs a year to start paying off credit card bills or tuition debt or is hoping to scrape together enough for a down payment on a condo, discuss it and figure out how long that's going to take.
- *Chores are necessary:* You may charge either rent or demand payment in kind, but a mixture of both might be best. Remember, you're not running a B&B.

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- *Supervise their financial planning:* Work with them to build better financial habits. Help them set a budget and figure out their net worth, a real eye-opener for many young adults.
- *Keep records:* Even if you never share these with your children, make sure you keep track of payments, chores and other in-kind efforts made by your “tenant” during the term of his or her stay.
- *What about the rent?:* If you are in a relatively good financial position and you don’t need your child’s rent to pay your own bills, you might consider investing those amounts on behalf of your child to chip in for his or her home down payment, or possibly helping to ring those wedding bells.

Don’t Make These Retirement Planning Mistakes: It really doesn’t take much to derail a retirement plan. Most of the errors we see in new clients in planning for their retirement are mistakes of neglect, omission or downright panic.

Here are some common mistakes we see people making:

- *Failing to start:* It is amazing how many people find so many excuses never to start retirement savings. But no matter how daunting debt or other spending priorities seem, you have to save for retirement on a regular basis, even if it’s only a cursory amount. Over time, those small amounts will grow to something considerably larger.
- *Failing to link planning for your at-work and personal retirement portfolios:* One of the critical retirement planning problems comes from failing to treat the investments you make at work versus the ones you make independently as a unified whole. What usually happens is people end up taking on way too much risk in their overall portfolios.
- *Failing to evaluate a prospective employer’s retirement options:* Benefits can be worth a lot. If you think you’re going to get a new job, it’s wise to interview prospective employers on the benefits side of what they’re offering you. Key considerations include the timeframes on when those various benefits kick in and company matching policies for retirement plans.
- *Failing to consider both kinds of IRAs:* The biggest difference between a traditional IRA and a Roth IRA is the way Uncle Sam gets his share. If you put money in a traditional IRA, you may be able to deduct that contribution from your gross income. In a Roth, you don’t receive the tax deduction for contributions, but when it’s time to take the money out, you won’t have to pay taxes on the growth.
- *Failing to update your beneficiaries:* We work with lots of divorcing and recently widowed clients. This is one area where we really stress the importance of doing the paperwork. It’s relatively easy to avert the consequences of the many horror stories of ex-spouses receiving benefits, or new spouses not getting benefits solely because a simple one page form was not filled in at the time of divorce or marriage.



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- *Failing to reinvest your tax refunds:* Did you know you could deposit your tax refund directly into your IRA? It works for a health or education savings account, too. While many people use their tax refund as a bonus to buy a treat or pay off bills, consider filing your taxes a bit early and arrange to e-file a direct deposit to your IRA so you can note that deposit for the previous tax year by April 15.
- *Withdrawing money early from an IRA or blowing a rollover:* Money taken out of an IRA may be subject to income taxes and a 10% penalty if you are under 59½ years of age and do not put it back into an IRA within 60 days. Whenever we move assets, we use a trustee-to-trustee transfer to lessen the chances for mistakes. If a rollover or plan distribution check is made payable to you, there is a greater chance you'll miss the 60-day deadline. The IRS is very unforgiving and you'll face taxes and penalties.
- *Failing to contribute the maximum:* Not every employee can afford to contribute the maximum allowed, but it should be a goal.

Foreclosure Investing is on the Upswing, but not for the Squeamish: In May, RealtyTrac, a leading online market for foreclosure properties, reported that foreclosure rates were up 4 percent in April from March levels, and a whopping 65 percent from April 2007.

We recently worked through this process with a client and wanted to share some insights. Anyone who considers investing in foreclosure properties should understand both foreclosure and the importance of cash in the process, and also the emotional element unique to this kind of investment. After all, each foreclosure represents someone or some family who has lost a home.

With the rise in foreclosures, you'll definitely hear more about how "easy" it is to invest and make a killing (watch out for those TV infomercials!). In reality, those who deal regularly in foreclosures know making a profit can be tough, and it's true even for investors with close ties to lenders and public officials and investors who have lots of experience. Let's look at the foreclosure process and how it works.

- *What is foreclosure?* A foreclosure happens when a buyer defaults on their payments and the lender takes legal action to seize the property. Foreclosures are up due to a downturn in the economy, and because many homeowners were tripped up by adjustable-rate mortgages that moved to higher payment levels they couldn't afford. State laws apply, but generally, when lenders decide to foreclose on a property they file a notice of default or a *lis pendens* ("lawsuit pending"). This document is a public record, and for buyers it's the first step in locating a property in foreclosure. Someone looking for foreclosures can go online for lists of properties in default, but be sure to double-check these listings.
- *Do all troubled properties have to be in foreclosure to be sold?* Actually, no. You may hear about "pre-foreclosure" or "short sale" properties put up for sale by lenders who have agreements with troubled homeowners electing to give up the property to avoid a



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foreclosure on their credit report. You will also hear about such sales being done by intermediary companies who say they deal in these transactions. Some are legitimate, some are not. Check them out.

- *How do people invest in foreclosure properties?* There are three primary ways this happens. First, you will see buyers coming in at the “pre-foreclosure” stage. Second, you will see buyers going after “REO” (real estate owned) properties, literally foreclosed real estate still on the books of a lender. Third, you’ll see foreclosures auctioned off at the public courthouse or in private auctions. Each process has its own method for inspecting the properties. Sometimes prospective buyers get time to inspect what they might buy, other times little or no time at all.
- *Is it Smart to borrow to buy foreclosures?* If you have to borrow money to buy foreclosed or troubled properties, try not to get involved at all. The typical purchase of a home involves mortgage financing taking weeks to secure. The sale of foreclosure properties is a fast-moving process requiring no-strings financing. Bottom line, lenders with foreclosed properties like cash. Another good reason to have cash instead of borrowing is the “surprise factor.” Even sophisticated foreclosure investors often discover ugly surprises when buying and borrowers may not have the flexibility to borrow more money to fix those unexpected problems after they borrowed to buy in the first place.
- *How do I educate myself?* Start with a solid look at your personal finances and your tax situation. Next, learn how various lenders in your community deal with pre-foreclosure and foreclosure properties. Learn how public officials (the Sheriff, for example) and private auction houses in your area handle the auction process for such property. Consider contacting real estate agents, too for their take on your local community. This is knowledge that takes time to obtain. All the parties involved in this process are busy and besieged by many like you who want to learn. Be patient, take the proper time to study the process and don’t spend a dime until you do.

Sometimes the poorest man leaves his children the richest inheritance.

Ruth E. Renkel

Happy Father’s Day!