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Back 2 Basics

12 Tips for Improving Financial Well-being, Reducing Debt and Increasing Net Worth

CARSON INSTITUTIONAL ALLIANCE

The good news is that American households have a total net worth of $85.2 trillion.[1] The bad news is that most families are still behind where they were financially in 2007.[2] In a recent survey, over half of Americans said they had less than $1,000 in their checking and savings accounts combined.[3] Add the $14.1 trillion in household debt reported by the Federal Reserve in 2015,[1] and more than half the country is living paycheck-to-paycheck and would need to borrow money in order to survive an emergency such as home or car repairs, or unexpected medical costs.

ECONOMIC STATE OF THE UNION

$85.2 Trillion	Total net worth of American households
$2.3 Trillion	Decrease in value of directly and indirectly held corporate equities from 2014
$482 Billion	Amount real estate rose over 2014
↑ **1.5%**	Increase in the annual rate of household debt
↑ **7.2%**	Rate consumer credit grew, while mortgage debt (excluding charge-offs) grew 1.6% at an annual rate

Source: Federal Reserve, 2015[1]

WHAT'S BEHIND THESE NUMBERS?

Americans continue to grapple with the toll the Great Recession took on family finances, especially where personal savings are concerned. Despite a stronger economy and job growth, the Federal Reserve reports that savings from disposable household income actually dropped $4.7 billion from $710.1 billion in 2011, to $705.4 billion in 2015.

However, these aggregate numbers only provide a partial view of Americans' financial well-being. Since wealth is spread unevenly, so is the effect of gains in asset values resulting from stock market investments. For example, a 2014 analysis of median household income found that the average wealth of a U.S. household, in inflation-adjusted dollars, dropped 36% from 2003 to 2013. In that same period, however, the richest 5% of households saw their median net worth increase by 12%.[2]

Net worth is calculated by taking everything you own (cars, houses, liquid savings, investment portfolios, furniture, collectibles, etc.) and subtracting out everything you owe (college loans, mortgages, auto loans, credit card debt, etc.).

NET WORTH OF AMERICANS BY AGE

AGE RANGE	MEDIAN NET WORTH	AVERAGE NET WORTH
Less than 35	$14,200	$73,500
35 – 44	$69,400	$299,200
45 – 54	$144,700	$542,700
55 – 64	$248,700	$843,800
65 – 74	$190,100	$690,900
75 or more	$163,100	$528,100

Source: U.S. Federal Reserve: Average net worth for all Americans, July 9, 2015.

Nonetheless, the median American household—the one that's doing better than about half of all households, but not as well as the other half—is likely well behind where it was before the financial crisis. But that doesn't mean you can't turn things around – you can. Whether you're further behind than you'd like to be in terms of accumulating savings or paying down debt, or simply want to further strengthen an already solid financial foundation, these time-tested tips provide the tools and information you need to pursue your financial goals no matter your age, income bracket or current net worth.

TIP 1: MAINTAIN A BUDGET AT EVERY STAGE OF LIFE

Who needs a budget? Everyone—regardless of how much you've accumulated. Why? Because budgeting provides a clear and consistent picture of your cash flow—what's coming in vs. what's going out. Without it, you can't optimize savings and spending, pursue your personal and financial goals with confidence or seize important opportunities to grow your wealth.

Budgeting doesn't have to be tedious or complicated. The following tips can help you easily establish and maintain a budget that works to help you stay on track. You might even enjoy the newfound control you have over your finances.

- Dozens of free online and mobile apps make budgeting portable and accessible 24/7. Many apps enable you to aggregate data from different accounts, providing real-time account values.
- Review your finances and spending at least once a month and consider ways to further trim expenses and increase savings.
- Watch for trends in overspending that need to be addressed or reigned in.
- Keep in mind that the one crunching the numbers in your family worries the most about your finances. Switch roles as "budget monitor" with your spouse or partner regularly so you're both on the same page with a clear understanding of, and support for, your shared goals.

TIP 2: EVALUATE YOUR SPENDING NEEDS VERSUS WANTS

Unchecked spending is the leading cause of budgeting gone awry. That's why it's important to sit down with your spouse, partner and/or other family members to determine your spending priorities. Fixed expenses like housing, food, clothing, utilities, transportation, childcare and ongoing medical expenses come first. These are necessities. Entertainment, shopping and hobbies—your discretionary spending—should be prioritized to prevent overspending.

- Make sure all interested parties have a fair say in prioritizing discretionary spending to avoid creating resentment.
- Consider spending on experiences (trips, meals, events, etc.) instead of things; the newness of things wears off but memories last forever.
- Be sure to factor raises and inflation into your budget and spending plan over time.
- As your income increases, consider committing 60% or more of any raise or bonus to savings.

DID YOU KNOW?

Your Wealth Advisor can model the potential impact of different savings rates over time to clearly illustrate how even small increases in savings can help you move closer to your long-term goals.

MO' MONEY SAVING IDEAS

- Ask for discounts. You'll be surprised at how many stores, restaurants and businesses will discount goods and services simply because you asked.
- Make discounts do double duty: Whenever you receive a discount, contribute the amount saved into your savings account.
- Create mini goals: Challenge yourself to cut a specific dollar amount from discretionary spending each month.
- Take advantage of automatic savings programs. If your debit or credit card allows you to round-up spending for automatic savings, or offers cash rewards on things you would purchase anyway, take advantage of these pain-free ways to save more.
- Determine where recurring expenses can be reduced or eliminated. Something as small as trimming your lunch budget $20 a month can help boost savings.
- Use cash to keep spending visible. If you're having a hard time keeping discretionary spending on track, consider using cash instead of cards. Unlike a credit card, when cash is gone, it's really gone.

DID YOU KNOW?

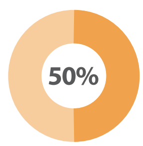
While numerous obstacles can stand between you and reaching your goals, such as debt, lack of a written financial plan or market fluctuations, your Wealth Advisor can help you put strategies in place to overcome any challenges you face as you pursue your goals.

TIP 3: ENGAGE A FINANCIAL COACH

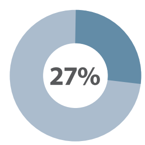
Similar to a workout buddy, a financial coach is your savings buddy, helping to keep you motivated and cheer you on when you reach new milestones. He or she can:

- Keep you focused on the future and inspire you to stay on track.
- Help you take greater control of spending and debt management.
- Assist you in setting up an emergency savings account and invest additional assets.
- Remain objective and ask the tough questions, like "Do you really need this, or simply want it?"

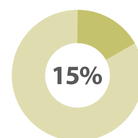
AMONG ADULTS AGES 25 TO 65:[5]



Don't feel they're on top of their finances



Don't know where to start and need more education or information



Don't want to deal with their finances because it's "too overwhelming"

TIP 4: PAY YOURSELF FIRST

Have you ever thought, "I deserve this," when spending money on something outside of your budget…only to regret it later? Paying yourself first is not only something you truly deserve, but a behavior you'll never regret. That's because paying yourself first forces you to think beyond instant gratification and strive for delayed gratification: the fulfillment of your short and long-term life goals—your true priorities in life.

- Make savings a prominent and permanent part of your budget.
- Challenge yourself to find new ways to save, however small. When you save money at the pump, put that extra money into savings.
- Begin today—there's no better time.

TIP 5: IDENTIFY AND PRIORITIZE YOUR GOALS

It's tough to prioritize spending if you haven't taken the time to identify and prioritize your financial goals. While goals like saving for retirement, a down payment on a home or a child's college education may immediately come to mind—a comprehensive approach to planning goes well beyond these objectives to include the things that bring true purpose and joy to your life.

In fact, one of the first things an experienced Wealth Advisor will ask you about is your lifestyle, not your net worth or portfolio holdings. Why? Because identifying the full range of your goals, and putting a well-coordinated strategy in place to pursue them, leads to a higher probability of success.

When determining your goals, consider the following:

- How do you want to live today and tomorrow?
- What do you value most in life?
- Where do you see yourself in 5-years? 10-years? 20-years? Will you be retired? Who will you spend time with and what will you be doing?
- How will you protect your lifestyle now and well into the future?
- How will your dependents be provided for if you're no longer there to provide for them?
- What is the legacy you will leave for the people and causes you care about?

TIP 6: UNDERSTAND WHY TODAY'S MONEY IS MORE VALUABLE THAN TOMORROW'S

Did you know that money saved in your 20s is more valuable than money saved in your 40s? That's because you earn investment returns on previous investment returns due to the power of compounding. Here's how it works. Let's say you made a one-time investment of $7,500 at age 20 at a hypothetical annual growth rate of 7.2%. Based on the Rule of 72—which is a simplified way to estimate how long an investment will take to double at a fixed annual rate—the value of that one year of savings would potentially double every ten years as follows:

BEGINNING VALUE	YEARS INVESTED	ANNUAL GROWTH RATE	ENDING VALUE
$7,500	10	7.2%	$15,000
	20	7.2%	$30,000
	30	7.2%	$60,000
	40	7.2%	$120,000

72 ÷ RATE OF RETURN = TIME FOR INVESTMENT TO DOUBLE

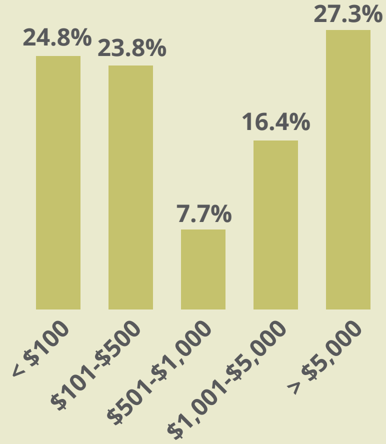
The rule of 72 is a mathematical concept and does not guarantee investment results nor functions as a predictor of how an investment will perform. It is an approximation of the impact of a targeted rate of return. Investments are subject to fluctuating returns and there is no assurance that any investment will double in value. The hypothetical examples provided are not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

TIP 7: NEVER LEAVE MONEY ON THE TABLE

Sometimes we forget that while Uncle Sam taketh in the form of taxes, he also giveth in the form of credits, deductions and other tax provisions designed to promote savings and charitable giving. For many Americans, the tax code provisions governing qualified retirement plans (Traditional/Roth IRAs, 401(k)/403(b), profit sharing, etc.) provide critical benefits.

STATE OF EMERGENCY: THE MAJORITY OF AMERICANS ARE "BROKE"[3]

Emergency savings are not just critical for weathering an emergency; they're also important for successful homeownership and living in retirement. Most financial planners recommend having an emergency fund with enough to cover three to six months of living expenses. While 44% of senior citizens have enough savings to cover unexpected expenses (versus 33% of millennials),[4] 56.3% of Americans say they don't even have $1,000 in emergency savings:[3]



DID YOU KNOW?

Your Wealth Advisor will work with you to complete a detailed investor profile that captures your goals and objectives, cash flow, investment, insurance and estate planning needs; risk tolerance and more. Together, you will identify areas you want to improve, develop or change as they relate to your wealth.

However, to realize the full benefits of these plans, you have to participate in them.

- Employer plans like 401(k) and 403(b) plans offer the ability to defer income from taxes, automate savings and enjoy the power of tax-deferred compounding of earnings over time.
- Rule of thumb: If your employer offers matching contributions, contribute at a rate equivalent to or higher than the match percentage – never leave free money on the table!
- Roth IRAs also put the power of tax-deferred compounding to work for you. What's more, since ROTH IRA (and Roth 401(k)) contributions are made with after-tax dollars, you pay no income tax on principal distributions in retirement.
- Remember, it's never too early or too late to begin saving for retirement.

The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59 or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

TIP 8: DIVERSIFY YOUR FINANCIAL LIFE

Most people think of diversification in terms of how their assets are allocated within a given investment portfolio, like their IRA, 401(k) or 403(b) retirement plan accounts. However, the concept of financial diversification is much broader and encompasses assets outside of a single investment portfolio to include real estate, non-qualified investments and alternative investments.

For many Americans, their home and employer retirement plan represent the bulk of their assets. However, as we saw in 2008, a simultaneous downturn in both the real estate and financial markets spelled double trouble for many Americans, especially those nearing or in retirement. That's where alternative investment classes may help. Alternative investments typically have a low or negative correlation to other asset classes over long periods. This low correlation means that when other investment classes experience a downturn, alternative investments may continue to perform well.

The term "alternative investments" covers a range of investments that fall outside of more traditional investment classes such as stocks, bonds, cash, cash equivalents or mutual funds that invest in those asset classes.

By contributing an additional layer of diversification to a well-allocated portfolio, alternative investments can help manage risk in any market climate. Alternative investments historically have sought to provide investors with several potential investment advantages and may be an attractive option for investors seeking to:

- Increase diversification in their investment portfolios
- Manage market volatility
- Access alternative sources of portfolio returns
- Create more efficient investment portfolios

DID YOU KNOW? ?

If you're concerned about how prepared you may be for retirement, your Wealth Advisor can help answer your questions, including how long your income may last in retirement.

Alternative investments may not be suitable for all investors and involve special risks such as leveraging the investment, potential adverse market forces, regulatory changes and potentially illiquidity. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses. Investing involves risk including loss of principal. No strategy assures success or protects against loss.

TIP 9: KNOW YOUR TOLERANCE FOR RISK VS. YOUR APPETITE FOR RISK

Understanding risk and reward is critical to making sound investment decisions aligned with your goals. However, investors often take on too much, or too little risk—both of which can undermine even the best laid strategy. Think of it this way: tolerance is what you actually can handle; appetite is what you want to handle. To achieve the risk/reward balance that's right for you, begin with these three steps:

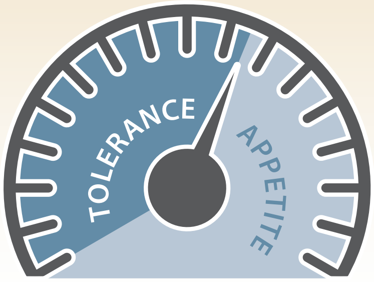
1. Be honest about how much risk you are willing to take on. If you know you can't stomach more than a 10% or 20% market drop at any given time, don't allocate your assets to only those investments that may have the potential to drop 30% or 40%, or more.

2. Diversify your portfolio across multiple asset classes and investment types to help manage risk. This increases the potential that when one investment or asset class is doing poorly, others may be doing well, helping to offset short-term losses in portfolio value.

   There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification and Asset Allocation do not protect against market risk.

3. Make investment decisions based on your long-term goals, not short-term market movements. Emotional decision-making is an investor's greatest enemy, leading many to opt out of the markets at the worst possible time.

KNOW YOUR RISK



RISK APPETITE	The amount and type of risk you're willing to accept in pursuit of your objectives.
RISK TARGET	The optimal level of risk you want to take in pursuit of a specific goal.
RISK TOLERANCE	The specific maximum risk you are willing to take regarding each relevant risk.
RISK CAPACITY	The amount and type of risk you are able to support in pursuit of your objectives.

DID YOU KNOW?

Your Wealth Advisor can assist you in determining your personal Family Index Number—the individual rate of return you need to pursue your goals and objectives with confidence.

TIP 10: DON'T FINANCE ANYTHING THAT DOESN'T APPRECIATE

Managing debt is critical in pursuing your long-term financial goals. When managed properly, it can actually save you money by increasing your credit score and helping you to qualify for lower interest rates on car loans, mortgages or lines of credit. When managed poorly, it can damage your credit score, resulting in higher interest rates on credit cards and loans.

Whenever possible:

- Pay off credit cards and other revolving debt on time and in full each month.
- Refrain from opening too many lines of credit, such as multiple department store credit cards as too much available credit can lower your credit score.
- Check your credit reports at least annually and correct any errors.
- Pay for big ticket items like cars with cash or take advantage of 0% interest rates.
- Buy the $20,000 car versus the $30,000 car and invest the difference. Remember the Rule of 72? That extra $10,000 has an opportunity to double every 10 years if invested instead of being spent on a depreciating asset like a car.
- Put 20% down on a home to eliminate paying for private mortgage insurance (PMI) and reduce the amount of principal subject to finance charges.

TIP 11: AUTOMATE, AUTOMATE, AUTOMATE

Today's savers and investors have an opportunity that generations past never had – the ability to automate both savings behaviors and decision-making. By automating contributions and savings to retirement plans, savings account or other vehicles, you take the decision-making out of the savings equation. Gone is the temptation to defer saving this month with the intention of making up for it next month.

Consider taking advantage of as many opportunities as you can to save and invest automatically.

- Take advantage of automatic contributions, auto-enrollment and auto-deferral increase options offered by your employer retirement plan.
- Fund your IRA through periodic monthly or quarterly contributions.
- Build a plan for becoming debt free by automating monthly debt payments from your checking account.
- If you are saving for a specific goal, create a separate savings account and make automatic contributions.

Automating savings and debt reduction is like strength training for your money. If you automate your big financial goals, and only spend what remains in your

WHAT IS YOUR FAMILY INDEX NUMBER?

Your Family Index Number is a highly personalized measurement developed by our financial planning team to help you and your Wealth Advisor define and track your progress along the path to pursuing your financial goals at every stage of your life. It represents the rate of return your portfolio assets need to generate in order to pursue your goals and objectives while maintaining resources during your lifetime.

Your Family Index Number helps replace complexity with clarity while providing answers to questions of great concern to many families and investors, including:

- How much do we need now?
- How much will we need in the future?
- How long will our income last?
- How much can we spend in retirement?
- How do we get there with the least amount of risk?
- Should we be concerned with the Broad Market Index Rate of Returns?

checking account each month, you will start building wealth. The more you do so, the stronger and more fit your financial life becomes. (Now if you could only automate those gym workouts!)

TIP 12: ADOPT A POSITIVE ATTITUDE ABOUT MONEY

Despite time saving solutions like automated savings, online budgeting apps, and account aggregation software, it's no secret that many people approach financial management with a healthy dose of apprehension. That's why it's important to remember that money creates freedom, it doesn't restrict it. Pursuing financial independence requires embracing financial management, which includes becoming familiar with basic financial terms and principles. And it isn't as complicated as many people think—especially if you're working with a financial professional. An experienced Wealth Advisor will:

- Show you how your money can be used as a purposeful tool to pursue your goals in life.
- Help you understand the many ways your income and savings create opportunities for moving closer to your goals.
- Take the time to educate you on financial concepts, the financial markets and individual investments.
- Help you develop a budget and spending plan.
- Put a comprehensive plan in place, aligned with your goals, to help you overcome any obstacles and challenges.
- Monitor your progress along the path to your goals, and recommend any needed adjustments along the way.

GET STARTED ON THE PATH TO FINANCIAL FREEDOM TODAY!

The fundamental action steps outlined above can help you move closer to your goals at any stage of life. If you have young adult children, consider sharing this information with them. Remember, it's never too early or too late to put yourself and those you love on the path to a sound financial future.

Contact your Wealth Advisor today to learn how we can help you pursue your financial goals with confidence.

DID YOU KNOW?

Your Wealth Advisor works with a financial planning team of CPA's, in-house attorneys*, insurance experts and investment professionals to bring the expertise and insight you seek across multiple financial disciplines to address the full spectrum of your financial needs.

**Accounting and legal services are not offered by CWM, LLC.*

[1] *U.S. Federal Reserve: Federal Reserve Statistical Release - Financial Accounts of the United States Flow of Funds, Balance Sheets, and Integrated Macroeconomic Accounts Third Quarter 2015.*

[2] *Money.com: Household Wealth Is the Highest Ever. Probably Not Your Household's, Though; by Kerri Anne Renzulli; March 13, 2015.*

[3] *Google Consumer Surveys for MagnifyMoney; December 2015.*

[4] *MarketWatch.com: Most Americans are one paycheck away from the street; January 31, 2015*

[5] *Charles Schwab: Fall 2014 Financial Pulse Survey.*

CARSON INSTITUTIONAL ALLIANCE

ABOUT CARSON INSTITUTIONAL ALLIANCE

Our goal at Carson Institutional Alliance is to work with clients throughout the True Wealth planning process to identify each of their financial and non-financial concerns, and to address those concerns. Putting a plan in place to pursue your goals will not only assist you in your quest to attain True Wealth, but help provide the balance and control you seek across all aspects of your financial life. Our job is to take the worry out of managing your finances so you can rest easy. We want you to get to the end of your life and say, “I’m glad I did,” not “I wish I had.”

Wealth Designed.
Life Defined.®

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