



Focus on Financial Freedom

Maintaining Your Financial Health

Four Numbers You Need to Know Now

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When it comes to your finances, you might easily overlook some of the numbers that really count. Here are four to pay attention to now that might really matter in the future.

least annually to check the accuracy of the information upon which your credit score is based. You're entitled to one free copy of your credit report every 12 months from each of the three credit reporting agencies. You can get your copy by visiting annualcreditreport.com.

1. Retirement plan contribution rate

What percentage of your salary are you contributing to a retirement plan? Making automatic contributions through an employer-sponsored plan such as a 401(k) or 403(b) plan is an easy way to save for retirement, but this out-of-sight, out-of-mind approach may result in a disparity between what you need to save and what you actually are saving for retirement. Checking your contribution rate and increasing it periodically can help you stay on track toward your retirement savings goal.

Some employer retirement plans let you sign up for automatic contribution rate increases each year, which is a simple way to bump up the percentage you're saving over time. In addition, try to boost your contributions when you receive a pay raise. Consider contributing at least enough to receive the full company match (if any) that your employer offers.

2. Credit score

When you apply for credit, such as a mortgage, a car loan, or a credit card, your credit score is one of the tools used by lenders to evaluate your creditworthiness. Your score will likely factor into the approval decision and affect the terms and the interest rate you'll pay.

The most common credit score that creditors consider is a FICO® Score, a three-digit number that ranges from 300 to 850. This score is based on a mathematical formula that uses information contained in your credit report. In general, the higher your score, the lower the credit risk you pose.

Each of the three major credit reporting agencies (Equifax, Experian, and TransUnion) calculates FICO® scores using different formulas, so you may want to check your scores from all three (fees apply). It's also a good idea to get a copy of your credit report at

3. Debt-to-income ratio

Your debt-to-income ratio (DTI) is another number that lenders may use when deciding whether to offer you credit. A DTI that is too high might mean that you are overextended. Your DTI is calculated by adding up your major monthly expenses and dividing that figure by your gross monthly income. The result is expressed as a percentage. For example, if your monthly expenses total \$2,200 and your gross monthly income is \$6,800, your DTI is 32%.

Lenders decide what DTIs are acceptable, based on the type of credit. For example, mortgage lenders generally require a ratio of 36% or less for conventional mortgages and 43% or less for FHA mortgages when considering overall expenses.

Once you know your DTI, you can take steps to reduce it if necessary. For example, you may be able to pay off a low-balance loan to remove it from the calculation. You may also want to avoid taking on new debt that might negatively affect your DTI. Check with your lender if you have any questions about acceptable DTIs or what expenses are included in the calculation.

4. Net worth

One of the key big-picture numbers you should know is your net worth, a snapshot of where you stand financially. To calculate your net worth, add up your assets (what you own) and subtract your liabilities (what you owe). Once you know your net worth, you can use it as a baseline to measure financial progress.

Ideally, your net worth will grow over time as you save more and pay down debt, at least until retirement. If your net worth is stagnant or even declining, then it might be time to make some adjustments to target your financial goals, such as trimming expenses or rethinking your investment strategy.

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The Health-Wealth Connection

Expect the Unexpected: What to Do If You Become Disabled

Can I roll my traditional 401(k) account balance over to a Roth IRA?

What is a pet trust?



The Health-Wealth Connection



"Always keep two things in stock: crunchy vegetables and an emergency savings account."

Michael F. Roizen, MD, and Jean Chatzky, personal finance commentator

Authors of [Ageproof: Living Longer Without Running Out of Money or Breaking a Hip](#)

¹ [American Psychological Association, February 4, 2015; The Telomere Effect: A Revolutionary Approach to Living Younger, Healthier, Longer, by Blackburn and Epel; and Ageproof: Living Longer Without Running Out of Money or Breaking a Hip, by Chatzky and Roizen](#)

² *The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. It should be noted that long-term care carriers have the discretion to raise their rates and remove their products from the marketplace.*

It's a vicious cycle: Money is one of the greatest causes of stress, prolonged stress can lead to serious health issues, and health issues often result in yet more financial struggles.¹ The clear connection between health and wealth is why it's so important to develop and maintain lifelong plans to manage both.

The big picture

Consider the following statistics:

1. More than 20% of Americans say they have either considered skipping or skipped going to the doctor due to financial worries. (American Psychological Association, 2015)
2. More than half of retirees who retired earlier than planned did so because of their own health issues or to care for a family member. (Employee Benefit Research Institute, 2017)
3. Chronic diseases such as heart disease, type 2 diabetes, obesity, and arthritis are among the most common, costly, and preventable of all health problems. (Centers for Disease Control and Prevention, 2017)
4. Chronic conditions make you more likely to need long-term care, which can cost anywhere from \$21 per hour for a home health aide to more than \$6,000 a month for a nursing home. (Department of Health and Human Services, 2017)
5. A 65-year-old married couple on Medicare with median prescription drug costs would need about \$265,000 to have a 90% chance of covering their medical expenses in retirement. (Employee Benefit Research Institute, 2017)

Develop a plan for long-term health ...

The recommendations for living a healthy lifestyle are fairly straightforward: eat right, exercise regularly, don't smoke or engage in other risky behaviors, limit soda and alcohol consumption, get enough sleep (at least seven hours for most adults), and manage stress. And before embarking on any new health-related endeavor, talk to your doctor, especially if you haven't received a physical exam within the past year. Your doctor will benchmark important information such as your current weight and risk factors for developing chronic disease. Come to the appointment prepared to share your family's medical history, be honest about your daily habits, and set goals with your doctor.

Other specific tips from the Department of Health and Human Services include:

Nutrition: Current nutritional guidelines call for eating a variety of vegetables and whole fruits; whole grains; low-fat dairy; a wide variety of protein sources including lean meats, fish, eggs, legumes, and nuts; and healthy oils. Some medical professionals are hailing the long-term benefits of the so-called "Mediterranean diet." Details for a basic healthy diet and the Mediterranean diet can be found at health.gov/dietaryguidelines.

Exercise: Any physical activity is better than none. Inactive adults can achieve some health benefits from as little as 60 minutes of moderate-intensity aerobic activity per week. However, the ideal target is at least 150 minutes of moderate-intensity or 75 minutes of high-intensity workouts per week. For more information, visit health.gov/paguidelines.

... and long-term wealth

The recommendations for living a financially healthy life aren't quite as straightforward because they depend so much on your individual circumstances. But there are a few basic principles to ponder:

Emergency savings: The amount you need can vary depending on whether you're single or married, self-employed or work for an organization (and if that organization is a risky startup or an established entity). Typical recommendations range from three months' to a year's worth of expenses.

Retirement savings: Personal finance commentator Jean Chatzky advocates striving to save 15% of your income toward retirement, including any employer contributions. If this seems like a lofty goal, bear in mind that as with exercise, any activity is better than none — setting aside even a few dollars per pay period can lead to good financial habits. Consider starting small and then increasing your contributions as your financial circumstances improve.

Insurance: Make sure you have adequate amounts of health and disability income insurance, and life insurance if others depend on your income. You might also consider long-term care coverage.²

Health savings accounts: These tax-advantaged accounts are designed to help those with high-deductible health plans set aside money specifically for medical expenses. If you have access to an HSA at work, consider the potential benefits of using it to help save for health expenses.



Expect the Unexpected: What to Do If You Become Disabled



About 20% of Americans live with a disability, and one in four of today's 20-year-olds will become disabled before retiring.

Source: SSA, Disability Facts, 2017

The average age of SSDI recipients in 2015 was 54.

Source: Fast Facts and Figures About Social Security, 2016

In a recent survey, 46% of retirees said they retired earlier than planned, and not necessarily because they chose to do so. In fact, many said they had to leave the workforce early because of health issues or a disability.¹

Although you may be healthy and financially stable now, an unexpected diagnosis or injury could significantly derail your life plans. Would you know what to do, financially speaking, if you suddenly became disabled? Now may be a good time to familiarize yourself with the following information, before an emergency arises.

Understand any employer-sponsored benefits you may have

Disability insurance pays a benefit that replaces a percentage of your pay for a designated period of time. Through your employer, you may have access to both short- and long-term disability insurance. If your employer offers disability insurance, be sure to fully understand how the plan works. Review your plan's Summary Plan Description carefully to determine how to apply for benefits should you need them, and what you will need to provide for proof of disability.

Short-term disability protection typically covers a period of up to six months, while long-term disability coverage generally lasts for the length of the disability or until retirement. Your plan may offer basic coverage paid by your employer and a possible "buy-up" option that allows you to purchase additional coverage.

According to the Bureau of Labor Statistics, 40% of private industry workers have access to short-term disability insurance through their employers, while 33% have access to long-term coverage. For both types of plans, the median replacement amount is about 60% of pay, with most subject to maximum limits.²

Consider a supplemental safety net

If you do not have access to disability insurance through your employer, it might be wise to investigate other options. It may be possible to purchase both short- and long-term group disability policies through membership in a professional organization or association. Individual policies are also available from private insurers.

You can purchase policies that cover you for life, until age 65, or for shorter periods such as two or five years. An individual policy will remain in force as long as you pay the premiums. Because many disabilities do not result in a complete inability to work, some policies offer a rider that will pay you partial benefits if you are able to work part-time.

Most insurance policies have a waiting period (known as the "elimination period") before you can begin receiving benefits. For private insurance policies, this period can be anywhere from 30 to 365 days. Group policies (particularly through your employer) typically have shorter waiting periods than private policies. Disability insurance premiums paid with after-tax dollars will generally result in tax-free disability benefits. On the other hand, if your premiums are paid with pre-tax dollars, typically through your employer, your benefit payments may be taxable.

Review the Social Security disability process

The Social Security Administration (SSA) pays disability benefits through two programs: the Social Security Disability Insurance (SSDI) program and the Supplemental Security Income (SSI) program. SSDI pays benefits to people who cannot work due to a disability that is expected to last at least one year or result in death, and it's only intended to help such individuals make ends meet. Consider that the average monthly benefit in January 2017 was just \$1,171.

In order to receive SSDI, you must meet strict criteria for your disability. You must also meet requirements for how recently and how long you have worked. Meeting the medical criteria is difficult; in fact, according to the National Organization of Social Security Claimants' Representatives (NOSSCR), about two-thirds of initial SSDI applications are denied on their first submission. Denials can be appealed within 60 days of receipt of the notice.³

The application process can take up to five months, so it is advisable to apply for SSDI as soon as you become disabled. If your application is approved, benefits begin in the month following the six-month anniversary of your date of disability (as recorded by the SSA in your approval letter). Eligible family members may also be able to collect additional payments of up to 50% of your benefit amount.

SSI is a separate program, based on income needs of the aged, blind, or disabled. You can apply to both SSI and SSDI at the same time.

For more information, visit the Social Security Disability Benefits website at ssa.gov, where you will also find a link to information on the SSI program.

¹ [2016 Retirement Confidence Survey](#), Employee Benefit Research Institute

² Bureau of Labor Statistics, [National Compensation Survey](#), 2016

³ [NOSSCR](#) web site, accessed March 2017



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Commonwealth does not provide legal or tax advice. Please consult with a legal or tax professional regarding your individual situation.



Can I roll my traditional 401(k) account balance over to a Roth IRA?

Yes, you can make a direct or 60-day rollover from a 401(k) plan [or other qualified plan, 403(b) plan, or governmental 457(b) plan] to a Roth IRA, as long as you meet certain requirements.*

First, you must be entitled to a distribution from your plan. While you can always access your account when you terminate employment, in some cases you may be able to withdraw your own or your employer's contributions while you're still working (for example, at age 59½).

[Note: Your plan may also permit the "in plan" conversion of all or part of your account balance to a Roth account, regardless of whether you're eligible for a distribution from the plan. Check with your plan administrator.]

Second, your distribution must be an "eligible rollover distribution." Distributions that cannot be rolled over include hardship withdrawals, certain periodic payments, and required minimum distributions (RMDs).

Third, you must include the taxable portion of the distribution in your gross income in the year you make the rollover ("conversion"). But that's

the price you have to pay to potentially receive tax-free qualified distributions from your Roth IRA in the future.

Fourth, if your distribution includes both after-tax and pre-tax dollars, you can generally direct that only the after-tax dollars be rolled over to the Roth IRA (resulting in a tax-free conversion), while making a tax-deferred rollover of the pre-tax dollars to a traditional IRA.

When evaluating whether to initiate a rollover from an employer plan to an IRA, be sure to: (1) ask about possible surrender charges that your employer plan or IRA may impose, (2) compare investment fees and expenses charged by your IRA with those charged by your employer plan (if any), and (3) understand any accumulated rights or guarantees that you may be giving up by transferring funds out of your employer plan. Also consider all of your distribution options, including leaving the money in your employer's plan, transferring the funds to a new employer's plan, or taking a cash withdrawal.

* If you make a 60-day rollover, your plan will withhold 20% of the taxable portion of your distribution for federal income tax purposes.



What is a pet trust?

A pet trust is an arrangement to provide for the care and financial support of your pet(s) upon your disability or death.

You fund the trust with

property or cash that can be used to provide for your pet based on your instructions in the trust document.

Your pet trust should name a trustee who will carry out your instructions for the care of your pet, including handling and disbursement of trust funds and turning your pet over to the person or entity you designate to serve as your pet's caregiver. The trustee and caregiver could be the same person or entity.

As with most trusts, you can create your pet trust while you're alive (an inter vivos or living trust) or at your death through your will (a testamentary trust). In either case, you can generally change the terms of your pet trust at any time during your lifetime to accommodate changing circumstances. If you create an inter vivos trust, you can fund it with cash or property either during your life (needed if the trust is to care for your pet if you become incapacitated) or at your death through your will. A testamentary trust is only funded after you die.

Some of the instructions to consider for your pet trust include: provisions for food and diet, daily routines, toys, medical care and grooming, how the trustee or caregiver is to document expenditures for reimbursement, whether the trust will insure the caregiver for any injuries or claims caused by your pet, and the disposition of your pet's remains.

You may also want to name a person or organization to take your pet should your trust run out of funds. Also consider naming a remainder beneficiary to receive any funds or property remaining in the trust after your pet dies.

A potential problem arises if your pet is expected to live for more than 21 years after your death. That's because, in many states, the "rule against perpetuities" forbids a trust from lasting beyond a certain period of time, usually 21 years after the death of an identified person. However, almost every state has laws relating to pet trusts that address this issue in particular and allow for the continued maintenance of the trust, even if its terms would otherwise violate the rule.

Note that there are costs and expenses associated with the creation of a trust.

