



The Wealth Architect

Helping you build your financial future.

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Dear Friends,

As we close out 2015, we are pleased to bring you this final issue of The Wealth Architect for the year. We hope this year's publications have been enlightening and valuable for your financial literacy.

From all of us at Armao LLP, here's to a New Year filled with good health and prosperity. HAPPY NEW YEAR!

Sincerely,
The Professionals at Armao LLP

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When a Saver Marries a Spender, Every Penny Counts



If you're a penny pincher but your spouse is penny wise and pound foolish, money arguments may frequently erupt. Couples who have opposite philosophies regarding saving and spending often have trouble finding common ground. Thinking of yourselves as two sides of the same coin may help you appreciate your financial differences.

Heads or tails, saver or spender

If you're a saver, you love having money in the bank, investing in your future, and saving for a rainy day. You probably hate credit card debt and spend money cautiously. Your spender spouse may seem impulsive, prompting you to think, "Don't you care about our future?" But you may come across as controlling or miserly to your spouse who thinks, "Just for once, can't you loosen up? We really need some things!"

Such different outlooks can lead to mistrust and resentment. But are your characterizations fair? Your money habits may have a lot to do with how you were raised and your personal experience. Being a saver or a spender may come naturally; instead of assigning blame, try to see your spouse's side.

Start by discussing your common values. What do you want to accomplish together? Recognize that spenders may be more focused on short-term goals, while savers may be more focused on long-term goals. Ultimately, whether you're saving for a vacation, a car, college, or retirement, your money will be spent on something. It's simply a matter of deciding together when and how to spend it.

A penny for your thoughts?

Sometimes couples avoid talking about money because they are afraid to argue. But talking about money may actually help you and your spouse avoid conflict. Scheduling regular money meetings could help you gain a better understanding of your finances and provide a forum for handling disagreements.

To help ensure a productive discussion, establish some ground rules. For example, you might set a time limit, insist that both of you come prepared, and take a break in the event

the discussion becomes heated.

Communication and compromise are key. Don't assume you know what your spouse is thinking--ask--and be willing to negotiate. Here are some questions to get started.

- What does money represent to you? Security? Freedom? The opportunity to help others?
- What are your short-term and long-term savings goals?
- How much money is coming in and how much is going out? Never assume that your spouse knows as much about your finances as you do.
- How comfortable are you with debt, including mortgage debt, credit card debt, and loans?
- Who should you spend money on? Do you agree on how much to give to your children or how much to spend on gifts to family members and friends, for example?
- What rules would you like to apply to purchases? One option is to set a limit on how much one spouse can spend on an item without consulting the other.
- Would you like to set aside some discretionary money for each of you? Then you would be free to save or spend those dollars without having to justify your decision.

Once you've explored these topics, you can create a concrete budget or spending plan that reflects your financial personalities. To satisfy you and your spouse, make savings an "expense" and allow some room in the budget for unexpected expenses. And track your progress. Having regular meetings to go over your finances will enable you to celebrate your financial successes or identify areas where you need to improve. Be willing to make adjustments if necessary.

Finally, recognize that getting on the same page is going to take some work. When you got married, you promised to love your spouse for richer or poorer. Maybe it's time to put your money where your mouth is.



As you reconsider your retirement income needs, it might also make sense to check your expected Social Security benefit and any other potential sources of income. To get an estimate of your future Social Security payments, go to [socialsecurity.gov](https://www.ssa.gov/socialsecurity.gov) and select "my Social Security."

Asset allocation does not guarantee a profit or protect against a loss; it is a method used to help manage investment risk.

All investing involves risk, including the possible loss of principal. There can be no assurance that any investment strategy will be successful.

Give Your Retirement Plan an Annual Checkup

Financial professionals typically recommend that you review your employer-sponsored retirement savings plan annually and when major life changes occur. If you haven't revisited your plan yet in 2015, the end of the year may be an ideal time to do so.

Reexamine your risk tolerance

This past year saw moments that would try even the most resilient investor's resolve. When you hear media reports about stock market volatility, is your immediate reaction to consider selling some of the stock investments in your plan? If that's the case, you might begin your annual review by reexamining your risk tolerance.

Risk tolerance refers to how well you can ride out fluctuations in the value of your investments while pursuing your long-term goals. An assessment of your risk tolerance considers, among other factors, your investment time horizon, your accumulation goal, and assets you may have outside of your plan account. Your retirement plan's educational materials likely include tools to help you evaluate your risk tolerance, typically worksheets that ask a series of questions. After answering the questions, you will likely be assigned a risk tolerance ranking from conservative to aggressive. In addition, suggested asset allocations are often provided for consideration.

Have you experienced any life changes?

Since your last retirement plan review, did you get married or divorced, buy or sell a house, have a baby, or send a child to college? Perhaps you or your spouse changed jobs, received a promotion, or left the workforce entirely. Has someone in your family experienced a change in health? Or maybe you inherited a sum of money that has had a material impact on your net worth. Any of these situations can affect both your current and future financial situation.

In addition, if your marital situation has changed, you may want to review the beneficiary designations in your plan account to make sure they reflect your current wishes. With many employer-sponsored plans, your spouse is automatically your plan beneficiary unless he or she waives that right in writing.

Reassess your retirement income needs

After you evaluate your risk tolerance and consider any life changes, you may want to take another look at the future. Have your dreams for retirement changed at all? And if so,

will those changes affect how much money you will need to live on? Maybe you've reconsidered plans to relocate or travel extensively, or now plan to start a business or work part-time during retirement.

All of these factors can affect your retirement income needs, which in turn affects how much you need to save and how you invest today.

Is your asset allocation still on track?

Once you have assessed your current situation related to your risk tolerance, life changes, and retirement income needs, a good next step is to revisit the asset allocation in your plan. Is your investment mix still appropriate? Should you aim for a higher or lower percentage of aggressive investments, such as stocks? Or maybe your original target is still on track but your portfolio calls for a little rebalancing.

There are two ways to rebalance your retirement plan portfolio. The quickest way is to sell investments in which you are overweighted and invest the proceeds in underweighted assets until you hit your target. For example, if your target allocation is 75% stocks, 20% bonds, and 5% cash but your current allocation is 80% stocks, 15% bonds, and 5% cash, then you'd likely sell some stock investments and invest the proceeds in bonds. Another way to rebalance is to direct new investments into the underweighted assets until the target is achieved. In the example above, you would direct new money into bond investments until you reach your 75/20/5 target allocation.

Revisit your plan rules and features

Finally, an annual review is also a good time to take a fresh look at your employer-sponsored plan documents and plan features. For example, if your plan offers a Roth account and you haven't investigated its potential benefits, you might consider whether directing a portion of your contributions into it might be a good idea. Also consider how much you're contributing in relation to plan maximums. Could you add a little more each pay period? If you're 50 or older, you might also review the rules for catch-up contributions, which allow those approaching retirement to contribute more than younger employees.

Although it's generally not a good idea to monitor your employer-sponsored retirement plan on a daily, or even monthly, basis, it's important to take a look at least once a year. With a little annual maintenance, you can help your plan keep working for you.



Education Tax Benefits

Several education tax credits and deductions could help reduce the cost of college or vocational training, including the American Opportunity credit, the Lifetime Learning credit, and the student loan interest deduction. To learn more, consult a tax professional or IRS Publication 970, Tax Benefits for Education.

Financial Tips for Going Back to College at Any Age

You're never too old to learn, but you might be wondering how you can meet your educational goals without breaking the bank. Believe it or not, there are ways to make college more affordable no matter what your age.

In your 20s

Perhaps you weren't ready to go to college immediately after graduating from high school. You took time off to travel, work, raise children, or pursue a military career. But after getting some "real world" experience under your belt, you've decided now is the time to go back to college.

Should you jump into a four-year bachelor's program or a two-year associate's degree? The answer may depend on what you want to study, how much time you have to devote to your studies, and how much you can afford. Keep in mind that federal financial aid eligibility is based on a student attending school on at least a half-time basis. Also bear in mind that the more time you spend in school, the higher the overall tuition bill and the more money you may need to borrow--and pay back.

Certificate or vocational training programs may also be worth considering as viable alternatives to more traditional four- or two-year options. Usually, they are less expensive and can be a faster way to build a skill set needed to start your career.

If you spent time in the military, you could be eligible for education benefits that may cover the cost of tuition/fees, housing, and books. To learn more about available benefits and eligibility requirements for military members, visit benefits.va.gov.

In your 30s, 40s, and 50s

The prospect of paying for college may seem impossible if you're struggling to balance your family life, job, and finances. It might make sense, though, if you need or want to upgrade your job skills or change your career.

Some employers offer tuition reimbursement benefits to help employees improve their skills or gain new skills. This can be a very valuable financial resource, so check with your human resources department to see if your company offers tuition benefits. However, employers typically require employees to remain at the company for a certain length of time after the benefits are paid, so make sure to check out the details.

If you have a particularly hectic schedule, registering for night classes, online classes, or as a part-time student may be more convenient for you.

Nontraditional class times or virtual attendance can also be more cost-effective by eliminating additional expenses like the cost of commuting or housing that are associated with conventional enrollment.

If you're in your 50s, it may be worth looking into colleges supported by programs like the American Association of Community Colleges Plus 50 Initiative. This program provides funding to community colleges for the creation and expansion of campus programs that target individuals aged 50 and older who seek workforce training or preparation for a new career. To see colleges in your area that are associated with the initiative, visit plus50.aacc.nche.edu.

In your 60s and beyond

If you're approaching retirement or already retired, you might be inspired to pursue a college degree or attend classes merely for educational enrichment. If so, you don't necessarily have to tap into your retirement funds to pay for college.

A growing number of state universities and community colleges offer a selection of tuition-free classes for older students. Other schools may offer reduced tuition based on your age.

And if you don't mind learning online, massive open online courses (MOOCs) could be a cost-effective option. MOOCs offer a wide variety of classes at little or no cost, allowing you to quench your thirst for more knowledge on a variety of topics at the time of your choosing.

Tips for all ages

Renting textbooks, registering for online courses, and applying for financial aid are examples of money-saving strategies that could help a college student at any age. Remember that most students are eligible for some form of financial aid, so you will want to fill out the federal government's Free Application for Federal Student Aid (FAFSA) to determine how much aid you might be eligible for. To learn how much aid you might receive, visit a college's financial aid office, run a college's net price calculator on its website, or visit fafsa.ed.gov.

If you receive a smaller amount of financial aid than you hoped, research local, state, and national scholarships. Accomplishments you've made over the years from your nontraditional education path could help you qualify.

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What is compound interest?

When Benjamin Franklin died in 1790, he left the equivalent of \$4,400 each to the cities of Boston and Philadelphia in his will, under the condition that

the money be loaned and invested. He stipulated that the cities would have access to a portion of the funds after 100 years and receive the remaining funds after 200 years. When the cities received their balances after 200 years, the combined bequest had grown to \$6.5 million. How did such a small initial sum grow to such a large amount? Through the power of compound interest. (Source: Benjamin Franklin Institute of Technology, Codicil to Benjamin Franklin's Will)

There are two basic types of interest: simple and compound. The main difference between the two is that simple interest generates interest only on the initial principal amount, while compound interest generates interest based on both the initial principal amount and all accumulated interest. Here's an example of how each works.

Say you put \$10,000 in an account that earns 2% simple interest per year. In the first year you would generate \$200 and end up with a total of

\$10,200. In year two, you'd earn another \$200, bringing your total to \$10,400.

If you put that same \$10,000 in an account that earns 2% compound interest per year, in the first year you would generate \$200 and end up with a total of \$10,200. At the end of the second year, however, interest builds on the interest from the previous year, and now you earn money on the amount in your account rather than the initial principal alone. Therefore, the interest earned in that second year is \$204, bringing your total to \$10,404.

While the interest may not seem like much at first, it can add up over time, especially when you invest an additional amount each month. For example, if you invest that \$10,000 in an account that generates 2% compound interest per year, and then invest an additional \$400 per month, your initial investment would grow to \$214,943.55 after 30 years. In another 10 years, you would have \$315,141.32. With compound interest, time is your friend, so the earlier you can start saving, the better.

Note: This hypothetical example of mathematical compounding is for illustrative purposes only and does not represent any specific investment. Actual results may vary.

THE SECRET OF LIFE IS COMPOUND INTEREST?



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