CHAD HORSHAM'S FINANCIAL NEWS DIGEST

MONEYLINE

Pick Your Plastic

Courtesy of Chad A. Horsham, LUTCF

A cash-back card or a travel rewards card? Hmmm. Here are some lesser-known considerations when deciding on what kind of plastic you want to be packin':

Warranties. Some of the upscale versions offered by issuers extend the manufacturer's warranty by up to one year when you purchase an item with your card.

Purchase protection. If, for example, your iPad is stolen from your hotel room, some issuers will reimburse you if you paid for the room with the right card. Drop that new iPad and some cards will have it repaired or replaced within 90 days from the date of purchase.

Luggage protection. Was your luggage lost or damaged by the airline on your last flight? If you paid for your ticket with the right card, you could be reimbursed for up to $3,000.

Rental-car coverage. Many cards cover damage to a rental car (if you use the card to reserve and pay for the vehicle) that your primary auto insurance doesn't. That means you may not need the rental company's collision damage waiver (CDW) insurance.

Concierge services. Some cards help you get tickets to sold-out events, book travel, make dinner reservations, and find unusual gifts.

Chad A. Horsham, LUTCF
Financial Services Professional

One Valmont Plaza
Suite 100
Omaha, NE 68154

(402) 496-6413
cahorsham@ft.newyorklife.com

Employees are losing disability coverage as employers cut back on high-cost benefits. Companies that are not dropping the coverage often are raising employees' cost of obtaining it while reducing the benefits paid by the disability policies. *What to do:* Find out if you can buy additional coverage through your employer at your own expense…or buy an individual policy. Buying through your employer costs less but may provide narrower coverage—analyze the options carefully.

How to negotiate salary in today's tough job market: Job candidates often are so happy to be offered a job that they accept a lower salary than they should. *Self-defense:* When asked for your salary requirement on applications, leave it blank or write "Open." During interviews, if you are asked about your previous salary, ask about the range for the job you are discussing. Don't negotiate salary in the interview. Say that you are interested and will seriously consider any offer that the company makes… or say that once you get a clear understanding of the job requirements and advancement potential you'll be better prepared to discuss salary. When you receive an offer, ask if there is any flexibility. You may not be offered a higher salary, but you might get an extra week of vacation or a signing bonus.

"The trouble with being poor is that it takes up all your time."

— William de Kooning

What's Your Retirement Number?

By Jill Schlesinger, Tribune Media Services

A former client once argued with me about his '"retirement number".' He couldn't believe that he needed $1 million in savings before he could retire. "That amount just seems like way more money than is necessary!" But after walking through the variables and calculations, he finally said, "Geez, a million bucks — I guess that's my number."

Determining your retirement number is like getting on the bathroom scale: Sometimes it's a pleasant surprise; however, more often than not it forces you to face an ugly truth. Just as taking the dreaded step onto the scale is a necessary part of the weight-loss process, so too is crunching the numbers for retirement planning. According to the Employee Benefit Research Institute (EBRI) 2011 Retirement Confidence Survey, only 42 percent of American workers have taken the time and effort to complete a retirement needs calculation. Without going through that process, you're flying blind into your retirement.

Please know that this is not rocket science, especially in an age when there are so many retirement calculators available. The tricky part about using these calculators is that they ask you to estimate factors that even economists can't agree upon. My crystal ball isn't perfect, but here are some sensible estimates that should help:

Inflation assumption: 4.5 percent (higher than where we are today, but most economists believe that inflation is headed up in the coming years).

Rate of investment return both before and after retirement: Consider your risk tolerance and err on the side of being conservative. If you're stuck, use 4-5 percent. Obviously, if you use a higher rate of return, the calculator will ultimately determine that you have to save a smaller amount. After our Great Recession and financial crash, I probably don't have to tell you that higher return assumptions may not always work out as planned.

Life Expectancy — if you are younger than 50, use 95; if you're older than 50, use 90. If you want a closer estimate, go to www.livingto100.com and use their Life Expectancy Calculator.

Then you will be asked to plug in the amount of money you have already saved, your annual contributions to your retirement plans and other investment accounts, any future pension amounts, and a Social Security benefit. While Social Security might change in the future, most of the revisions being contemplated would not affect people who are currently over 50. For those under 50, you might have to wait longer to collect benefits or the benefit amount could be reduced. To adjust for an altered Social Security landscape, you could simply raise your replacement rate by 5 percent.

Once you have entered in all of the information, the calculator is going to spit out your results. For many, this moment could be as stressful as stepping on the scale. But only when you are armed with the necessary information can you alter your course to a smooth retirement. So don't be afraid to take the plunge and discover your retirement number.

Investment Mistakes, Common and Uncommon

By Elliott Raphaelson, Tribune Media Services

All of us make investment decisions that are not perfect. However, that doesn't mean we have made a mistake.

For example, let's say you have chosen an al-

location of the stock and bond funds in your portfolio based on reasonable investment objectives. It is easy to imagine that there would be years when you would have done much better to have 100 percent of your investments in the stock funds. But it is hardly a mistake not to have done so.

However, it may be a mistake to have too high a percentage of your assets in one sector of the market inconsistent with your long-term objectives, or to invest in only a few common stock funds. Any decision with a high risk relative to your financial situation may be a mistake.

A common mistake is not rebalancing your portfolio often enough. Portfolio balance refers to your allocation of assets among different asset classes. After deciding on your most effective portfolio mix, it makes sense to rebalance your portfolio periodically. I like to do it annually.

For example, assume you decided at the beginning of 2011 that 30 percent of the dollar value of your portfolio should be in the bond funds, 65 percent in the stock funds, and 5 percent in commodity funds. At the end of 2011, your portfolio might have been around 35 percent bonds, 55 percent stock funds and 10 percent commodity funds. If your financial situation has not changed, and you are comfortable with your original allocation, you should consider rebalancing back to your optimum allocation. If you have a portfolio of both retirement and nonretirement accounts, consider taking any losses — if you have a choice — in your nonretirement accounts in order to minimize your taxes.

It is not uncommon for a sector of the market that does very well one year to do poorly the next year. If you rebalance annually, you will be protecting some of your gains. Nor is it uncommon for sectors that have had a poor year to rebound the next year. By rebalancing, you will be taking advantage of such situations. No one can predict short-term movements in the market with certainty, but rebalancing is a conservative approach that does allow you to take advantage of frequent reverses in the markets.

Another error is not taking advantage of the existing tax laws as they relate to your portfolio. It is important to understand the basics of the federal tax law, whether you prepare your taxes or hire someone. There are situations in which an understanding of the tax law will help you improve your financial situation.

"The seller will accept your downpayment of 5,000 returnable beer and soda bottles, providing one of those bottles contains a check for thirty-five thousand dollars."

Downside of a digital wallet. If you use your smartphone to make purchases, your protection against fraud may be limited. Digital-wallet programs let you wave your phone at a cash register or tap a retailer's reader to make a payment with a credit or debit card, gift card or bank account…or charge what you buy to your mobile-phone account. If you use it to pay by credit or debit card, you get the protection offered by those cards—usually a maximum liability of $50. But if you use the phone to buy something with a prepaid card or gift card or on your mobile-phone bill, you will be liable for all purchases until you report a problem, such as a lost or stolen phone.

Don't trust car insurers' price comparisons. Visit competitors' Web sites directly to get quotes from them. *Example:* Progressive offers a name-your-own-price option for auto insurance at its Web site. It does not actually let you go as low as you want to but does offer a wide range of plans at different costs—and compares them to other companies' plans. But Progressive's quotes for other firms' insurance are not necessarily the same as those companies' own quotes. *What to do:* Shop around by visiting multiple sites even if it seems easier to go to a single site and use its comparison tool.

"Hard work never killed anybody, but why take a chance?"

— Edgar Bergen

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One Valmont Plaza, Suite 100
Omaha, NE 68154

Money-Smart Kids: Teaching Kids To Save

By Janet Bodnar, Kiplinger's

Many parents acknowledge that it's their responsibility to teach kids about money and savings but that they don't always follow through. For such time-strapped parents, here's my easy-to-follow guide to teaching kids to save:

Preschool

Young children think about money in concrete terms, so saving should be as hands-on as possible.

■ Start with a piggy bank. Banks come in all forms, from traditional pigs to talking ATMs, and they're great as both teaching tools and toys.

■ Set simple goals. Keep them short-term and easy to achieve. For example, kids could save money for a trip to the dollar store, or tape a picture of a coveted toy to their piggy bank so they don't lose sight of their goal.

Elementary Through Middle School

Tweens are prime candidates for getting an allowance that's tied to specific responsibilities.

■ Divvy up their allowance into pockets of money for spending, saving, giving and even investing. If you don't want to take the trouble to parcel out your kids' allowance, a simple alternative is to require them to save, say, a flat 10 percent.

■ Match what your children put aside.

■ Give them a reward. Once your children have achieved their goal, let them spend the money and enjoy the payoff for their efforts.

High School

Whether your teens get an allowance or earn money of their own, expand their financial responsibilities to include gifts, clothing, concerts, cellphones and car expenses.

■ Clue them in to college. If they have a job, it's not unreasonable to expect them to save a chunk of their income for college expenses.

■ Encourage them to have their paychecks deposited directly.

■ Start an IRA. If your children have earned income from a job, in 2012 they can contribute an amount equal to their annual earnings or $5,000, whichever is less.