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## SUMMER 2019

Managing Your Money in a Gig Economy  
Key Estate Planning Documents  
How can you avoid falling for the Social Security imposter scam?  
What's the real return on your investments?



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# Investment News

## Is It Time to Declare Your Financial Independence?



No matter how much money you have or which life stage you're in, becoming financially independent starts with a dream. Your dream might be to finally pay off the mountain of debt you've accumulated, or to stop relying on someone else for financial support. Or perhaps your dream is to retire early so you can spend more time with your family, travel the world, or open your own business. Financial independence, however you define it, is freedom from the financial obstacles that are keeping you from living life on your own terms.

### Envision the future

If you were to become financially independent, what would change? Would you spend your time differently? Live in another place? What would you own? Would you work part-time? Ultimately, you want to define how you choose to live your life. It's your dream, so there's no wrong answer.

### Work at it

Unless you're already wealthy, you may have had moments when winning the lottery seemed like the only way to become financially secure. But your path to financial independence isn't likely to start at your local convenience store's lottery counter.

Though there are many ways to become financially independent, most of them require hard work. And retaining wealth isn't necessarily easy, because wealth may not last if spending isn't kept in check. As income rises, lifestyle inflation is a real concern. Becoming — and remaining — financially independent requires diligently balancing earning, spending, and saving.

### Earn more, spend wisely, and save aggressively

**Earn more.** The bigger the gap between your income and expenses, the quicker it will be to become financially independent, no matter what your goal is. The more you can earn, the more you can potentially save. This might mean

finding a job with a higher salary, working an extra job, or working part-time in retirement. And a job is just one source of income. If you're resourceful and able to put in extra hours, you may also be able to generate regular income in other ways — for example, renting out a garage apartment or starting a side business.

**Spend wisely.** Look for opportunities to reduce your spending without affecting your quality of life. For the biggest impact, focus on reducing your largest expenses — for example, housing, food, and transportation. Practicing mindful spending can also help you free up more money to save. Before you buy something nonessential, think about how important it is to you and what value it brings to your life so that you don't end up with a garage or attic filled with regrettable purchases.

**Save aggressively.** Set a wealth accumulation goal and then prioritize saving. Of course, if you have a substantial amount of debt, saving may be somewhat curtailed until that debt is paid off. Take simple steps such as choosing investments that match your goals and time frame, and paying yourself first by automatically investing as much as possible in a retirement savings plan. Time is an important ally in the quest for financial independence, so start saving as early as possible and build your nest egg over time. (Note that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.)

### Keep going

**Make adjustments.** Life changes. Unexpected bills come up. Some years will be tougher financially than others. Expect to make some adjustments to your plan along the way, especially if you have a long-term time frame, but keep going.

**Track your progress.** Celebrate both small milestones and big victories. Seeing the progress you're making will help you stay motivated as you pursue your dream of financial independence.



*As a contingent worker, you may be eligible for a number of tax deductions (e.g., start-up expenses, mileage), so be sure to keep good records. If you have multiple gig jobs, consider using a log to keep track of your income and work expenses.*

## Managing Your Money in a Gig Economy

According to the Bureau of Labor Statistics, 16.5 million people rely on contingent or alternative work arrangements for their income.<sup>1</sup> Often referred to as the "gig economy," these nontraditional or contingent work arrangements include independent contractors, on-call and temp agency workers, and those who sign up for on-demand labor through smartphone apps.

If you are a contingent worker, you need to pay close attention to your finances in order to make up for any gaps in earnings that may occur between jobs. In addition, you'll have to plan ahead for health-care costs, taxes, and saving for retirement, since you will have to shoulder these expenses on your own. The following are some tips for managing your money in a gig economy.

### Prepare for slower periods between jobs

While establishing a cash reserve is an integral part of any financial strategy, it is especially important for contingent workers. You'll want to set aside enough money to cover unexpected expenses and large bills that may come due during slower months between jobs. A good strategy is to make it a habit to deposit a portion of your income in your cash reserve.

### Make sure you maintain good credit

Even a robust cash reserve might not be able to weather a significant downturn in contingency work. That's why it's important for contingent workers to have access to credit to help them get through leaner times. Make sure that you maintain a good history by avoiding late payments on existing loans and paying off your credit card balances whenever possible.

### Come up with a budget...and stick to it

Because your income flow fluctuates, you'll need to come up with a budget a bit differently than someone with a regular income. Your first step should be to determine your monthly expenses. If it helps, you can break them down into two types of expenses: fixed and discretionary. Fixed expenses are expenses that will not change from month to month, such as housing, transportation, and student loan payments. Discretionary expenses are expenses that are more of a "want" than a "need," such as dining out or going on a vacation. Once you come up with a number, you should determine how much income you need to keep up with all of your expenses.

For a contingent worker, it's especially important to stick to your budget and keep your discretionary expenses under control. If you are

having trouble keeping on track with your budget, consider ways to cut back on spending or find additional sources of income to make up for any shortfalls.

### Consider your health insurance options

Unfortunately, as a contingent worker you don't have access to an employer-sponsored health plan. However, you do have health insurance options. If you are a recent college graduate and still on your parents' health insurance plan, you usually can stay on until you turn 26. If you are no longer on your parents' plan, you may be eligible for a government-sponsored health plan, or you can purchase your own plan through the federal or state-based Health Insurance Marketplace. For more information, visit [healthcare.gov](https://healthcare.gov).

### Plan ahead for taxes

In a traditional work arrangement, employers typically withhold taxes from employees' paychecks. As a self-employed worker, you'll have to plan ahead for federal and possibly state taxes so you don't end up with a large bill during tax time. The IRS requires self-employed individuals to make quarterly estimated income tax payments, so make sure you set enough money aside each time you get paid to go toward your tax payments. Because contingency income fluctuates from month to month, the IRS allows you to make unequal quarterly payments. In addition, you'll be responsible for paying a self-employment tax, so you need to account for that as well. For more information, visit the IRS website at [irs.gov](https://irs.gov).

### Don't forget about retirement

While being self-employed has benefits, it also comes with tough challenges. In particular, a lack of structured benefits, such as an employer-sponsored retirement plan, can lead contingency workers to end up sacrificing their retirement savings. And even though anyone with earned income can set up an IRA, the contribution limits are relatively low — \$6,000 in 2019 (\$7,000 if age 50 or older).

Fortunately, there are some options that may allow you to make larger retirement contributions. Consider contributing to a solo or individual 401(k) plan (up to \$56,000 in 2019, not counting catch-up contributions for those age 50 and over) or a SEP IRA (25% of your net earnings, up to \$56,000 in 2019).

<sup>1</sup> U.S. Bureau of Labor Statistics, Contingent and Alternative Arrangements Summary, June 2018



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***There are four key estate planning documents almost everyone should have regardless of age, health, or wealth: a durable power of attorney, advance medical directives, a will, and a letter of instruction.***

## Key Estate Planning Documents

Estate planning is the process of managing and preserving your assets while you are alive, and conserving and controlling their distribution after your death. There are four key estate planning documents almost everyone should have regardless of age, health, or wealth. They are: a durable power of attorney, advance medical directives, a will, and a letter of instruction.

### Durable power of attorney

Incapacity can happen to anyone at any time, but your risk generally increases as you grow older. You have to consider what would happen if, for example, you were unable to make decisions or conduct your own affairs. Failing to plan may mean a court would have to appoint a guardian, and the guardian might make decisions that would be different from what you would have wanted.

A durable power of attorney (DPOA) enables you to authorize a family member or other trusted individual to make financial decisions or transact business on your behalf, even if you become incapacitated. The designated individual can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

There are two types of DPOAs: (1) an immediate DPOA, which is effective at once (this may be appropriate, for example, if you face a serious operation or illness), and (2) a springing DPOA, which is not effective unless you become incapacitated.

### Advance medical directives

Advance medical directives let others know what forms of medical treatment you prefer and enable you to designate someone to make medical decisions for you in the event you can't express your own wishes. If you don't have an advance medical directive, health-care providers could use unwanted treatments and procedures to prolong your life at any cost.

There are three types of advance medical directives. Each state allows only a certain type (or types). You may find that one, two, or all three types are necessary to carry out all of your wishes for medical treatment.

- A living will is a document that specifies the types of medical treatment you would want, or not want, under particular circumstances. In most states, a living will takes effect only under certain circumstances, such as a terminal illness or injury. Generally, one can be used only to decline medical treatment

that "serves only to postpone the moment of death."

- A health-care proxy lets one or more family members or other trusted individuals make medical decisions for you. You decide how much power your representative will or won't have.
- A do-not-resuscitate (DNR) order is a legal form, signed by both you and your doctor, that gives health-care professionals permission to carry out your wishes.

### Will

A will is quite often the cornerstone of an estate plan. It is a formal, legal document that directs how your property is to be distributed when you die. If you don't leave a will, disbursements will be made according to state law, which might not be what you would want.

There are a couple of other important purposes for a will. It allows you to name an executor to carry out your wishes, as specified in the will, and a guardian for your minor children.

The will should be written, signed by you, and witnessed.

Most wills have to be probated. The will is filed with the probate court. The executor collects assets, pays debts and taxes owed, and distributes any remaining property to the rightful heirs. The rules vary from state to state, but in some states smaller estates are exempt from probate or qualify for an expedited process.

### Letter of instruction

A letter of instruction is an informal, nonlegal document that generally accompanies your will and is used to express your personal thoughts and directions regarding what is in the will (or about other things, such as your burial wishes or where to locate other documents). This can be the most helpful document you leave for your family members and your executor.

Unlike your will, a letter of instruction remains private. Therefore, it is an opportunity to say the things you would rather not make public.

A letter of instruction is not a substitute for a will. Any directions you include in the letter are only suggestions and are not binding. The people to whom you address the letter may follow or disregard any instructions.

### Take steps now

Life is unpredictable. So take steps now, while you can, to have the proper documents in place to ensure that your wishes are carried out.



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## How can you avoid falling for the Social Security imposter scam?

The scam generally starts like this. You answer a call or retrieve a voicemail message that tells you to "press 1" to speak to a government "support representative" for help in reactivating your Social Security number. The number on your caller ID looks real, so you respond. The "agent" you reach tells you that your Social Security number has been suspended due to suspicious activity or because it has been involved in a crime.

You're worried. You know how important it is to keep your Social Security number safe. So when the caller asks you to confirm this number to reactivate it, or says your bank account is about to be seized but the Social Security Administration (SSA) can safeguard it if you put your money on gift cards and provide the codes, you don't know what to do. If you balk, you may be reminded that if you don't act quickly, your accounts will be seized or frozen.

Although none of this is true (the SSA will never threaten to seize benefits or suspend numbers), many people have fallen for the Social Security imposter scam, and the numbers are rising. According to the Federal Trade Commission

(FTC), more than 76,000 reports of the Social Security imposter scam were filed between April 2018 and March 2019. Reported losses during this period were \$19 million, and almost half of the reports were filed in February and March 2019.<sup>1</sup>

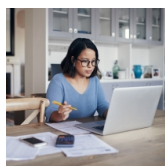
Here are some tips directly from the FTC to help you avoid becoming a victim.

**Do not trust caller ID.** Scam calls may show up on caller ID as the Social Security Administration and look like the agency's real number.

**Don't give the caller your Social Security number or other personal information.** If you already did, visit [IdentityTheft.gov/SSA](https://www.identitytheft.gov/SSA) to find out what steps you can take to protect your credit and your identity.

**Check with the real Social Security Administration.** The SSA will not contact you out of the blue. But you can call the agency directly at (800) 772-1213 to find out if the SSA is really trying to reach you and why. (You can trust this number if you call it yourself.)

<sup>1</sup> FTC Consumer Protection Data Spotlight, April 2019



## What's the real return on your investments?

As an investor, you probably pay attention to *nominal return*, which is the percentage increase or decrease in the value of an investment over a given period of time, usually expressed as an annual return. However, to estimate actual income or growth potential in order to target financial goals — for example, a certain level of retirement income — it's important to consider the effects of taxes and inflation. The remaining increase or decrease is your *real return*.

Let's say you want to purchase a bank-issued certificate of deposit (CD) because you like the lower risk and fixed interest rate that a CD can offer. Rates on CDs have risen, and you might find a two- or three-year CD that offers as much as 3% interest. That could be appealing, but if you're taxed at the 22% federal income tax rate, roughly 0.66% will be gobbled up by federal income tax on the interest.

That still leaves an interest rate of 2.34%, but you should consider the purchasing power of the interest. Annual inflation was about 2% from 2016 to 2018, and the 30-year average was 2.5%.<sup>1</sup> After factoring in the effect of inflation, the real return on your CD investment could

approach zero and may turn negative if inflation rises. If so, you might lose purchasing power not only on the interest but also on the principal.

This hypothetical example doesn't represent the performance of any specific investment, but it illustrates the importance of understanding what you're actually earning after taxes and inflation. In some cases, the lower risk offered by an investment may be appealing enough that you're willing to accept a low real return. However, pursuing long-term goals such as retirement generally requires having some investments with the potential for higher returns, even if they carry a higher degree of risk.

*The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to \$250,000 per depositor, per insured institution. All investments are subject to risk, including the possible loss of principal. When sold, investments may be worth more or less than their original cost.*

<sup>1</sup> U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)



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