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Spring is here! And the tax season deadline is approaching. Please contact us with any financial questions; we're here to help!

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Saving or Investing: Is There a Difference?

Cost of Living: Where You Live Can Affect How Rich You Feel

Can You Get to a Million Dollars?

What is the federal funds rate?



Financial Update

Ideas and Action Steps for Achievers

Saving or Investing: Is There a Difference?



Financially speaking, the terms "saving" and "investing" are often used interchangeably. But the concepts behind these terms actually have some important differences. Understanding

these differences and taking advantage of them may help you in working toward financial goals for you and your family.

Saving

You may want to set aside money for a specific, identifiable expense. You park this money someplace relatively safe and liquid so you can get the amount you want when you need it. According to the Securities and Exchange Commission brochure *Saving and Investing*, "savings are usually put into the safest places, or products, that allow you access to your money at any time. Savings products include savings accounts, checking accounts, and certificates of deposit." Some deposits may be insured (up to \$250,000 per depositor, per insured institution) by the Federal Deposit Insurance Corporation or the National Credit Union Administration. Savings instruments generally earn interest. However, the likely tradeoff for liquidity and security is typically lower returns.

Investing

While a return of your money may be an important objective, your goal might be to realize a return on your money. Using your money to buy assets with the hope of receiving a profit or gain is generally referred to as investing. Think of investing as putting your money to work for you--in return for a potentially higher return, you accept a greater degree of risk. With investing, you don't know whether or when you'll realize a gain. The money you invest usually is not federally insured. You could lose the amount you've invested (e.g., your principal), but you also have the opportunity to earn more money, especially compared to typical savings vehicles. The investment is often held for a longer period of time to allow for growth. It is important to note, though, that all investing involves risk,

including the loss of principal, and there is no assurance that any investing strategy will be successful.

What's the difference?

Whether you prefer to use the word "saving" or "investing" isn't as important as understanding how the underlying concepts fit into your financial strategy. When it comes to targeting short-term financial goals (e.g., making a major purchase in the next three years), you may opt to save. For example, you might set money aside (i.e., save) to create and maintain an emergency fund to pay regular monthly expenses in the event that you lose your job or become disabled, or for short-term objectives like buying a car or paying for a family vacation. You might consider putting this money in a vehicle that's stable and liquid. Think of what would happen if you were to rely on investments that suddenly lost value shortly before you needed the funds for your purchase or expense.

Saving generally may not be the answer for longer-term goals. One of the primary reasons is inflation--while your principal may be stable, it might be losing purchasing power. Instead, you may opt to purchase investments to try to accumulate enough to pay for large future expenses such as your child's college or your retirement. Generally, saving and investing work hand in hand. For instance, you may save for retirement by *investing* within an employer retirement account.

Why is it important?

Both saving and investing have a role in your overall financial strategy. The key is to balance your saving and investing with your short- and long-term goals and objectives. Overemphasize saving and you might not achieve the return you need to pursue your long-term goals. Ignore saving and you increase the risk of not being able to meet your short-term objectives and expenses. Get it right and you increase your chances of staying on plan.



Americans on the move

Americans are picking up and moving again as the recession fades, personal finances improve, and housing markets recover. Counties in Florida, Nevada, and Arizona had larger influxes of people, while some counties in Illinois, Virginia, New York, and California saw more people moving out. (Source: The Pew Charitable Trusts, *Americans Are on the Move--Again*, June 25, 2015, www.pewtrusts.org)

Cost of Living: Where You Live Can Affect How Rich You Feel

Do you find yourself treading water financially even with a relatively healthy household income? Even with your new higher-paying job and your spouse's promotion, do you still find it difficult to get ahead, despite carefully counting your pennies? Does your friend or relative halfway across the country have a better quality of life on less income? If so, the cost of living might be to blame.

The cost of living refers to the cost of various items necessary in everyday life. It includes things like housing, transportation, food, utilities, health care, and taxes.

Single or family of six?

Singles, couples, and families typically have many of the same expenses--for example, everyone needs shelter, food, and clothing--but families with children typically pay more in each category and have the added expenses of child care and college. The Economic Policy Institute (epi.org) has a family budget calculator that lets you enter your household size (up to two adults and four children) along with your Zip code to see how much you would need to earn to have an "adequate but modest" standard of living in that geographic area.

What areas have the highest cost of living? It's no secret that the East and West Coasts have some of the highest costs. According to the Council for Community and Economic Research, the 10 most expensive U.S. urban areas to live in Q3 2015 were:

Rank	Location
1	New York, New York
2	Honolulu, Hawaii
3	San Francisco, California
4	Brooklyn, New York
5	Orange County, California
6	Oakland, California
7	Metro Washington D.C./Virginia
8	San Diego, California
9	Hilo, Hawaii
10	Stamford, Connecticut

Factors that influence the cost of living

Let's look in more detail at some of the common factors that make up the cost of living.

Housing. When an area is described as having "a high cost of living," it usually means housing costs. Looking to relocate to Silicon Valley from the Midwest? You better hope for a big raise; the mortgage you're paying now on your

modest three-bedroom home might get you a walk-in closet in this technology hub, where prices last spring climbed to a record-high \$905,000 in Santa Clara County, \$1,194,500 in San Mateo County, and \$690,000 in Alameda County. (Source: *San Jose Mercury News*, *Silicon Valley Home Prices Hit Record Highs, Again*, May 21, 2015)

Related to housing affordability is student loan debt. Student debt--both for young adults and those in their 30s, 40s, and 50s who either took out their own loans, or co-signed or borrowed on behalf of their children--is increasingly affecting housing choices and living situations. For some borrowers, monthly student loan payments can approximate a second mortgage.

Transportation. Do you have access to reliable public transportation or do you need a car? Younger adults often favor public transportation and supplement with ride-sharing services like Uber, Lyft, and Zipcar. But for others, a car (or two or three), along with the cost of gas and maintenance, is a necessity. How far is your work commute? Do you drive 100 miles round trip each day or do you telecommute? Having to buy a new (or used) car every few years can significantly impact your bottom line.

Utilities. The cost of utilities can vary by location, weather, usage, and infrastructure. For example, residents of colder climates might find it more expensive to heat their homes in the winter than residents of warmer climates do cooling their homes in the summer.

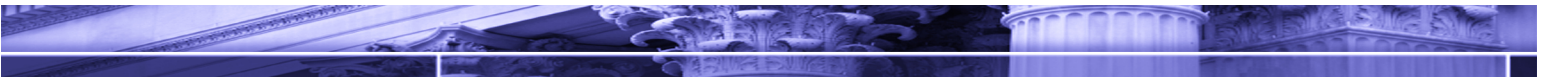
Taxes. Your tax bite will vary by state. Seven states have no income tax--Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. In addition, property taxes and sales taxes can vary significantly by state and even by county, and states have different rules for taxing Social Security and pension income.

Miscellaneous. If you have children, other things that can affect your bottom line are the costs of child care, extracurricular activities, and tuition at your flagship state university.

To move or not to move

Remember The Clash song "Should I Stay or Should I Go?" Well, there's no question your money will go further in some places than in others. If you're thinking of moving to a new location, cost-of-living information can make your decision more grounded in financial reality.

There are several online cost-of-living calculators that let you compare your current location to a new location. The U.S. State Department has compiled a list of resources on its website at state.gov.



Can You Get to a Million Dollars?



In trying to accumulate \$1 million (or any other amount), you should generally consider how much you have now, how much you can contribute in the future, how much you might earn on your investments, and how long you have to accumulate funds. But remember, there are no guarantees—even when you have a clearly defined goal. For example, the market might not perform as expected, or you may have to reduce your contributions at some point.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Review your progress periodically and be prepared to make adjustments when necessary.

Often in life, you have investment goals that you hope to reach. Say, for example, you have determined that you would like to have \$1 million in your investment portfolio by the time you retire. But will you be able to get there?

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Current balance--your starting point

Of course, the more you have today, the less you may need to contribute to your investment portfolio or earn on your investments over your time horizon.

Time (accumulation period)

In general, the longer your time horizon, the greater the opportunity you have to accumulate \$1 million. If you have a sufficiently long time horizon and a sufficiently large current balance, with adequate earnings you may be able to reach your goal without making any additional contributions. With a longer time horizon, you'll also have more time to recover if the value of your investments drops. If additional contributions are required to help you reach your goal, the more time you have to target your goal, the less you may have to contribute.

The sooner you start making contributions, the better. If you wait too long and the time remaining to accumulate funds becomes too short, you may be unable to make the large contributions required to reach your goal. In such a case, you might consider whether you can extend the accumulation period—for example, by delaying retirement.

Rate of return (earnings)

In general, the greater the rate of return that you can earn on your investments, the more likely that you'll reach your investment goal of \$1 million. The greater the proportion of the investment portfolio that comes from earnings, the less you may need to contribute to the portfolio. Earnings can benefit from long time horizons and compound rates of return, as returns are earned on any earlier earnings.

However, higher rates of return are generally associated with greater investment risk and the possibility of investment losses. It's important to choose investments that meet your time horizon and tolerance for risk. And be realistic in your assumptions. What rate of return is realistic given your current asset allocation and investment selection?

Amount of contributions

Of course, the more you can regularly contribute to your investment portfolio (e.g., monthly or yearly), the better your chances are of reaching your \$1 million investment goal, especially if you start contributing early and have a long time horizon.

Contributions needed

Now that the primary factors that affect your chances of getting to a million dollars have been reviewed, let's consider this question: At a given rate of return, how much do you need to save each year to reach the \$1 million target? For example, let's assume you anticipate that you can earn a 6% annual rate of return (ROR) on your investments. If your current balance is \$450,000 and you have 15 more years to reach \$1 million, you may not need to make any additional contributions (see scenario 1 in the table below); but if you have only 10 more years, you'll need to make annual contributions of \$14,728 (see scenario 2). If your current balance is \$0 and you have 30 more years to reach \$1 million, you'll need to contribute \$12,649 annually (see scenario 3); but if you have only 20 more years, you'll need to contribute \$27,185 annually (see scenario 4).

Scenario	1	2
Target	\$1,000,000	\$1,000,000
Current balance	\$450,000	\$450,000
Years	15	10
ROR	6%	6%
Annual contribution	\$0	\$14,728

Scenario	3	4
Target	\$1,000,000	\$1,000,000
Current balance	\$0	\$0
Years	30	20
ROR	6%	6%
Annual contribution	\$12,649	\$27,185

Note: This hypothetical example is not intended to reflect the actual performance of any investment. Actual results may vary. Taxes, fees, expenses, and inflation are not considered and would reduce the performance shown if they were included.

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What is the federal funds rate?

In December 2015, the Federal Open Market Committee (FOMC) raised the federal funds target rate to a range of 0.25% to 0.50%, the first shift from the rock-bottom 0% to 0.25% level where it had remained since December 2008.

The federal funds rate is the interest rate at which banks lend funds to each other from their deposits at the Federal Reserve, usually overnight, in order to meet reserve requirements. The Fed also raised a number of other rates related to funds moving between Federal Reserve banks and other banks. The Fed does not directly control consumer savings or credit rates, but the federal funds rate serves as a benchmark for many short-term rates, such as savings accounts, money market accounts, and short-term bonds.

The prime rate, which commercial banks charge their best customers, is typically about 3% above the federal funds rate. Other forms of business and consumer credit—such as small-business loans, adjustable-rate mortgages, auto loans, and credit cards—are often directly linked to the prime rate. Actual

rates can vary widely. Fixed-rate home mortgages and other long-term loans are generally not linked directly to the prime rate, but may be indirectly affected by it

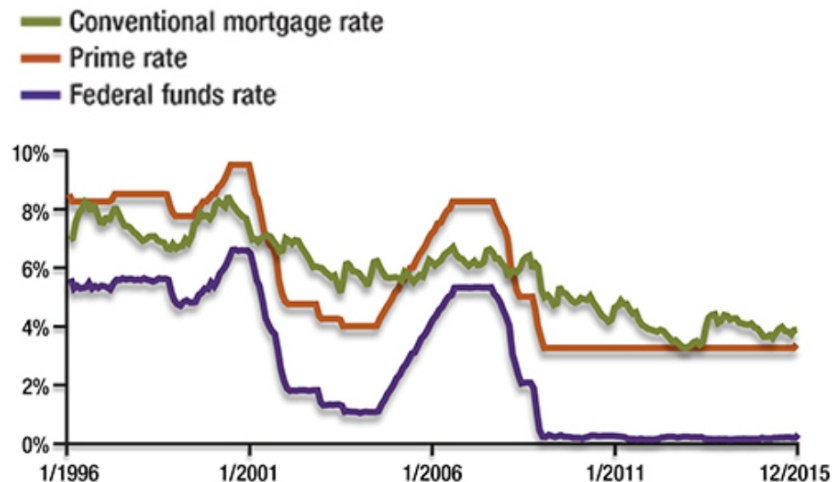
The FOMC expects economic conditions to "warrant only gradual increases" in the federal funds rate. Most Committee members projected a target range between 0.75% and 1.75% by the end of 2016, so you can probably expect a series of small increases this year. Although rising interest rates make it more expensive for consumers to borrow, higher rates could be good for retirees and savers who seek current income from bank accounts, CDs, bonds, and other fixed-interest investments.

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. The principal value of bonds may fluctuate with market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Source: Federal Reserve, 2015

Chart: Tracking the Fed

Although the prime rate has been closely aligned to the federal funds rate over the past 20 years, rates on conventional 30-year fixed mortgages have followed a more independent trajectory, generally trending downward over the period.



Source: Federal Reserve, 2016