



## Navigate Financial

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Summer time! Sunshine and fun times. Summer still means vacation to many of us; time for adventures with friends, camping and maybe gardening. But adulthood brings the reality of no summer-long vacations offering an escape from responsibilities. Adults remain responsible every day: covering immediate needs and implementing financial strategies to meet long-term needs. Unfortunately, putting our growth and development activities on hold until the end of summer does not work as adults.

So, take that vacation, play like you haven't a care in the world. There are times play should be the priority, but don't forget to be intentional in your activities and to act with tomorrow in mind. Mind your long-term goals and act upon them year-round. Remember that Financial Planning and Management is not a seasonal activity, but a positive move in the right direction all year long.

### Summer Newsletter - 2nd Quarter, June 2017

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## Charting Your Journey

### Four Numbers You Need to Know Now



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.

#### 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

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](http://annualcreditreport.com).

#### 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.

## Infographic: 4 Things to Do in the 4 Years Before College

College is a huge financial undertaking. With costs increasing every year and the prospect of too much student debt at the forefront of many families' minds, it's more important than ever to be an educated college consumer. Go into the planning process wisely with these four steps.



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### Take stock of your savings

A few years before you need to start paying tuition bills is a good time to look at your college savings. How much have you saved? Are you currently making monthly contributions? Can you increase them? How much will you have saved by the time your child graduates from high school?

### Get familiar with financial aid...

Get an estimate of your expected family contribution (EFC) by filling out the federal government's FAFSA4caster tool at [www.fafsa.ed.gov](http://www.fafsa.ed.gov). Your EFC will depend on your family's income, assets, and household information, like the number of children you'll have in college at the same time.



2

### ... and net price calculators

Colleges differ in the amount of merit and need-based financial aid they offer. To get an idea of how generous a college is, run the net price calculator available on every college website to get an estimate of what your out-of-pocket costs will be at that college. This 10-minute endeavor can help you compare the cost of different colleges in an apples-to-apples way.



3

### Have a frank conversation with your child about college costs

Share how much you expect to have saved and how much you will be able to contribute each year during college. When talking about loans, make sure your child knows exactly what the monthly payment will be after graduation for different loan amounts. Help your child avoid excessive borrowing.



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# Tax Benefits of Homeownership



## Limit on deductions

*You are subject to a limit on certain itemized deductions if your adjusted gross income exceeds \$261,500 for single taxpayers, \$313,800 for married taxpayers filing jointly, \$156,900 for married taxpayers filing separately, and \$287,650 for head of household taxpayers. This limit does not apply for alternative minimum tax purposes, however.*

Buying a home can be a major expenditure. Fortunately, federal tax benefits are available to make homeownership more affordable and less expensive. There may also be tax benefits under state law.

## Mortgage interest deduction

One of the most important tax benefits of owning a home is that you may be able to deduct any mortgage interest you pay. If you itemize deductions on your federal income tax return, you can deduct the interest you pay on a loan used to buy, build, or improve your home, provided that the loan is secured by your home. Up to \$1 million of such "home acquisition debt" (\$500,000 if you're married and file separately) qualifies for the interest deduction.

You may also be able to deduct interest you pay on certain home equity loans or lines of credit secured by your home. Up to \$100,000 of such "home equity debt" (or \$50,000 if your filing status is married filing separately) qualifies for the interest deduction. The interest you pay on home equity debt is generally deductible regardless of how you use the loan proceeds. For alternative minimum tax purposes, however, interest on home equity debt is deductible only for debt used to buy, build, or improve your home.

## Deduction for real estate property taxes

If you itemize deductions on your federal income tax return, you can generally deduct real estate taxes you pay on property that you own. For alternative minimum tax purposes, however, no deduction is allowed for state and local taxes, including real estate property taxes.

## Points and closing costs

When you take out a loan to buy a home, or when you refinance an existing loan on your home, you'll probably be charged closing costs. These may include points, as well as attorney's fees, recording fees, title search fees, appraisal fees, and loan or document preparation and processing fees. Points are typically charged to reduce the interest rate for the loan.

When you buy your main home, you may be able to deduct points in full in the year you pay them if you itemize deductions and meet certain requirements. You may even be able to deduct points that the seller pays for you.

Refinanced loans are treated differently. Generally, points that you pay on a refinanced loan are not deductible in full in the year you pay them. Instead, they're deducted ratably over the life of the loan. In other words, you can deduct a certain portion of the points each year. If the loan is used to make improvements to

your principal residence, however, you may be able to deduct the points in full in the year paid.

Otherwise, closing costs are nondeductible. They can, however, increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

## Home improvements

Home improvements (unless medically required) are nondeductible. Improvements, though, can increase the tax basis of your home, which in turn can lower your taxable gain when you sell the property.

## Capital gain exclusion

If you sell your principal residence at a loss, you can't deduct the loss on your tax return. If you sell your principal residence at a gain, you may be able to exclude some or all of the gain from federal income tax.

Capital gain (or loss) on the sale of your principal residence equals the sale price of your home minus your adjusted basis in the property. Your adjusted basis is typically the cost of the property (i.e., what you paid for it initially) plus amounts paid for capital improvements.

If you meet all requirements, you can exclude from federal income tax up to \$250,000 (\$500,000 if you're married and file a joint return) of any capital gain that results from the sale of your principal residence. Anything over those limits may be subject to tax (at favorable long-term capital gains tax rates). In general, this exclusion can be used only once every two years. To qualify for the exclusion, you must have owned and used the home as your principal residence for a total of two out of the five years before the sale.

What if you fail to meet the two-out-of-five-year rule? Or you used the capital gain exclusion within the past two years with respect to a different principal residence? You may still be able to exclude part of your gain if your home sale was due to a change in place of employment, health reasons, or certain other unforeseen circumstances. In such a case, exclusion of the gain may be prorated.

## Other considerations

It's important to note that special rules apply in a number of circumstances, including situations in which you maintain a home office for tax purposes or otherwise use your home for business or rental purposes.

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## Should I purchase towing and rental reimbursement coverage for my car?

For many individuals, driving a car is a necessity. Whether you're driving to work or running errands on the weekend, not having your main source of transportation for even just a week or two can have a major impact on your daily routine. As a result, you'll want to make sure your transportation needs are properly covered in case your car is ever disabled or in an accident. Fortunately, in addition to standard auto insurance coverage, most insurers offer optional towing and rental reimbursement coverage for an additional cost.

You can usually purchase towing coverage for a small premium. This type of coverage will pay for any towing and labor charges (up to a specified limit) incurred when your vehicle is disabled. This coverage can be used any time your car breaks down — not just when it's in an accident. Keep in mind that the insurer usually pays only for labor performed (e.g., jump-starting a battery, changing a tire) at the location where your vehicle is disabled and does not cover actual repair work performed at a service station.

Towing coverage is convenient to have, especially if you travel a lot in your car. However, if you already have roadside assistance through another source (e.g., a road and travel plan), you may not need to purchase towing coverage.

Rental reimbursement coverage pays a set amount per day for the cost of a rental car if your car is being repaired because of an accident that is covered under your auto insurance policy (some policies also provide coverage when a vehicle is stolen). Typically, this type of coverage is limited to a certain amount per day (e.g., \$30), up to a maximum amount (e.g., \$900). For an additional premium, the daily limit can usually be increased.

Whether you need rental reimbursement coverage for your car will depend on your transportation needs. If you own two vehicles or have access to an alternative means of transportation, you may be able to get by without it. However, if your car is your main source of transportation, it may be a worthwhile purchase.



## Are you ready to retire?

Here are some questions to ask yourself when deciding whether or not you are ready to retire.

### ***Is your nest egg adequate?***

It may be obvious, but the earlier you retire, the less time you'll have to save, and the more years you'll be living off your retirement savings. The average American can expect to live past age 78.\* With future medical advances likely, it's not unreasonable to assume that life expectancy will continue to increase. Is your nest egg large enough to fund 20 or more years of retirement?

### ***When will you begin receiving Social Security benefits?***

You can receive Social Security retirement benefits as early as age 62. However, your benefit may be 25% to 30% less than if you waited until full retirement age (66 to 67, depending on the year you were born).

### ***How will retirement affect your IRAs and employer retirement plans?***

The longer you delay retirement, the longer you can build up tax-deferred funds in traditional IRAs and potentially tax-free funds in Roth

IRAs. Remember that you need taxable compensation to contribute to an IRA.

You'll also have a longer period of time to contribute to employer-sponsored plans like 401(k)s — and to receive any employer match or other contributions. (If you retire early, you may forfeit any employer contributions in which you're not fully vested.)

### ***Will you need health insurance?***

Keep in mind that Medicare generally doesn't start until you're 65. Does your employer provide post-retirement medical benefits? Are you eligible for the coverage if you retire early? If not, you may have to look into COBRA or an individual policy from a private insurer or the health insurance marketplace — which could be an expensive proposition.

### ***Is phasing into retirement right for you?***

Retirement need not be an all-or-nothing affair. If you're not quite ready, financially or psychologically, for full retirement, consider downshifting from full-time to part-time employment. This will allow you to retain a source of income and remain active and productive.

\* NCHS Data Brief, Number 267, December 2016