ILLUSTRATION: SHUTTERSTOCK

WEALTH MANAGEMENT WITH FAMILY IN MIND

Saving for family needs is as much about managing psychology as making good investments

BY **STEVEN YODER**

Raising a child: $234,000. Parental contribution to four years of college tuition: average of $22,000. Down payment on a median-priced Sacramento home: $10,000-$79,000. Out-of-pocket for a medical emergency that primary health insurance won't cover: $9,000-$35,000. Retirement: $738,000.

These are daunting costs for starting a family, and for many of us there is one obvious solution: Save and invest wisely.

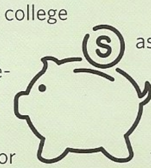
But financial advisor Scott Hanson has some disconcerting news: The amount of money you end up saving likely will have little correlation to your income today. Though the top and bottom of the income ladder are different, in the vast middle where most live, people struggle with saving regardless of how

COLLEGE SAVINGS PLANS: WHAT YOU NEED TO KNOW

Three main tax-advantaged vehicles exist to save for college: 529 college savings plans, Coverdell Education Savings Accounts and custodial accounts created under the Unified Gifts to Minors Act or Unified Transfers to Minors Act

529 plans let you funnel away up to $14,000 a year ($28,000 if married) and then withdraw the money tax free if it's used for education expenses. You can also invest a lump sum: $70,000 for a 5-year contribution if you're single or $140,000 if you're married. There are no time or age restrictions, so you can use the money anytime—even if your child decides to go to college later in life.

Contributions to Coverdell accounts have more restrictions: the annual contribution limit is $2,000 per beneficiary. No contributions can be made after the child turns 18, and the child has to use all of the money for education expenses by age 30. Those whose incomes are too high aren't eligible at all (restrictions start at $95,000 for single contributors and $195,000 for married).



And UGMAs and UTMAs are set up like irrevocable trusts in the child's name, so once the parent contributes to these accounts, they can't get the funds back. That's also a big deal because savings in the student's name are weighted more heavily in university financial aid decisions than are parental assets. Children also can be taxed on the gains, and there's no contribution limit.

And business owners can use college savings vehicles as part of their employee benefit packages. Nine hundred companies in California have 529 direct deposit arrangements, and a few have even set up 529 matching plans, says Yvette Haring, team manager at TIAA Tuition Financing in Pasadena.

much they make, he says. "You talk to someone making $60,000 and another making $150,000, and they both say they can't save," says Hanson, co-founder and senior partner at Hanson McClain Advisors. Indeed, a 2015 SunTrust Bank survey found that about one in three households earning at least $75,000 a year report living from paycheck to paycheck, as do one in four of those earning $100,000 or more a year.

Sound financial planning for the whole family means setting up good systems. That means being realistic about your ability to control your use of money, developing a sound financial plan, and sticking to that plan.

GAMING THE SYSTEM

Making good choices about money isn't really about willpower: Our resolve is weaker than we think. So if your family's wealth plan relies on you making good choices every day, all day, you may be in for a rough ride. That's because consumption and savings are constantly competing. "Your 401k doesn't talk back to you," Hanson says. "But your kids beg for new sneakers or a new TV. So guess where the money goes?" In a power struggle between our current and future selves, today's version holds veto power.

So you have to game the system. Hanson says that behavioral finance tools (systems that trick or force you into doing the right thing) are more important to what you'll save than financial savings vehicles (mutual funds, bonds, insurance products and the like). "The beauty of the 401k isn't the tax break it gives you — it's that the money gets yanked out of your check each month," Hanson says.

Technology has brought us a range of similar forced-savings tools: For example, apps like Acorns and Chime round up your purchases to the nearest dollar and swing the extra amount into an investment account. For those without a 401k, the app Rize automatically sends money to your savings account every time you get paid. Qapital lets you set up a savings rule of your choice, like moving money from your checking to your savings account every Sunday or when you go to the gym. Once behavioral systems like those are in place, you can devise a financial plan.

DESIGNING A ROAD MAP

For business owners, a consultation with a financial planner is probably warranted given the complexities they are up against, like how to best structure a business for tax planning purposes, whether you need specialty insurance like a business interruption plan, and how to plan for transferring the business to someone else when you retire.

Planners are also critical in mapping out your goals with specificity — *here's what college will cost, here's what a house will cost, here's what you need for retirement* — and then laying out a strategy for meeting those targets, says Kelly Brothers, financial advisor and partner at Genovese Burford & Brothers. Financial planners put those goals into a spreadsheet and map out what they mean for your day-to-day savings targets right now, adds Michael Tate, wealth manager at Tate Private Wealth Advisors. So if you need $40,000 for a house in five years or will have a child in college in 18 years, an advisor can tell you what you need to save per year to get there. "If the income isn't there, you can't have it all," Tate says. What's going to give? You may not be able to get that $70,000 SUV. Or you may have to adjust the goals themselves — like planning for your children to go to a state school unless they can bring in scholarships, he says.

STAYING ON THE ROAD

But a financial plan is only as good as your ability to stick to it. Brothers shows his clients a chart that plots how various investment vehicles performed from 1996 to 2015: For example, real estate investment trusts earned an annualized return of 11 percent in that period, stocks earned 8 percent and bonds 5 percent. But the average investor returns were just 2 percent. Why? Emotional decision making — jumping in and out of investments based on fear or intuition. "DIY'ers run into problems because when the market drops, they don't have someone to hold their hand, listen to their fears, and remind them that their time horizon is 30 years," Brothers says.

Other aspects of successful wealth management are stick-to-basics simple. The most common wealth management mistakes Tate sees people make are not writing a will or trust (64 percent of Americans don't), not maintaining a life insurance policy (more than 4 of 10 don't) and, for business owners, not having business interruption insurance (two-thirds of small businesses don't).

It's these classic guidelines — not stock-picking — that can put you ahead of a big chunk of the population, like the almost two-thirds of Americans who couldn't come up with $500 to cover an emergency. Hanson has a friend in the latter category: He's been out of school for 30 years and makes very good money, but couldn't go more than two months without a paycheck. That's not a financial shortfall — it's a psychology problem, Hanson says. ■

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