IT'S ASCENTIAL TO KNOW

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IN THIS ISSUE

ASCENTIAL WEALTH ADVISORS

Financial Planning for Teens & Young Adults

Parents can help their teens and young adults get started on the path to financial success by being proactive in their kids' late teen years and when they turn 18. Here are some ideas to consider for teens and young adults to help them transition to financial independence.

LEGAL DOCUMENTS:

Once a teen reaches the magical age of 18, they are legally an adult, with all of the corresponding rights and responsibilities. Parents are no longer legally able to act on behalf of their young adult in many situations, and privacy rights can prevent them from obtaining financial or medical information without additional permission. A financial power of attorney and healthcare power of attorney, naming the parent(s) as agent(s), can be executed to preserve the ability of parents to continue to help with financial and healthcare matters. Having these documents in place can be especially helpful in the event of an emergency but can also simplify handling routine aspects of a young adult's finances and medical needs while they are away at college. Note that some financial or medical institutions may request their own forms be completed in addition to the standard legal documents to fully grant the power to an agent, so it is best to check with your specific institutions. Also consider being named as an authorized signer on any bank accounts.

Key Takeaway: A financial Power of Attorney & healthcare Power of Attorney should be considered once a child turns 18.

CREDIT BUILDING:

It is important to start building credit early and using it responsibly so when it becomes necessary to make a major purchase, a young adult can qualify for financing. Obtaining a credit card in your child's name once they are 18 is one way to build their credit. Since teens commonly reach adulthood with little or no credit history, it may be easiest to start with a secured credit card. With a secured card, a deposit equal to the card's limit is made, and if the bill is unpaid, the credit card company keeps the deposit. Using the secured card to pay for living or discretionary expenses and paying it off in full each month will start building good credit and good financial habits. After demonstrating responsible use for a period of time, the credit card company may return the deposit and convert the card to a regular credit card. Parents can also consider co-signing on a car loan or other financing to help a young adult build credit.

Key Takeaway: Start building credit early; a secured credit card may be a good option for young adults with no credit history.

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Financial Planning for Teens & Young Adults (cont.)

▶ BUDGETING:

Learning to live within a budget early in life will set young adults up for continued success. Helping your young adult set a budget based on their income and expenses will help them prioritize their spending, which can also provide peace of mind and lessen financial worry. There are a wide variety of apps available for smart phones to help tech savvy young people with budgeting, and some will even link to a bank account or credit card to help automate the process. Even setting up something as simple as a spreadsheet to break down income and expenses can be an effective tool for young adults to manage their finances. Many parents will continue to pay for certain expenses for their young adult, such as auto insurance, cell phone, or health insurance. Discussing these expenses, and making young adults aware of the cost of everyday living expenses can help to set the stage for a successful handoff of financial responsibilities from parent to child.

Key Takeaway: Help your young adult set a budget and share with them what everyday items actually cost to prepare them to manage their funds responsibly.

▶ START SAVING:

When a young adult is just starting out, learning how to live within their means and start a habit of saving a portion of their income will pay dividends in the long run. The first dollars available for savings should go into a "rainy day" or emergency fund. Having a cushion in savings will prevent the young adult from starting on the negative cycle of using credit in an emergency. Once a buffer is built in savings, we suggest taking it a step further by opening and starting contributions to a retirement account. Specifically, a Roth IRA can be a great tool for young adults to start saving if they have the means and income to qualify for contributions. If inclined, parents and grandparents can also help incentivize contributions by offering a "match" to any money a young adult contributes on their own. Additionally, Roth contributions can make great gifts for milestones such as graduations or birthdays.

Key Takeaway: Start the habit of saving as soon as possible, first by building an emergency fund and then looking at a Roth IRA.

Minnesota Social Security Tax Changes

A number of tax law changes were incorporated into the State of Minnesota's 2023 legislative session, one of which affects state taxation of Social Security benefits. Phaseout limits have been established, starting in the 2023 tax year, that eliminate or reduce Minnesota state taxes on social security benefits up to certain annual income limits as outlined in the table below.

MN State Income Tax Exemption Limits		
	Annual Income Limit	Phase-Out Reductions
Single or Head of Household	$78,000	Exemption phased out by 10% for each $4,000 in excess of Exemption Limit
Married Filing Jointly	$100,000	
Married Filing Separately (each filer)	$50,000	Exemption phased out by 10% for each $2,000 in excess of Exemption Limit

Source: Minnesota Department of Revenue (2023)

The annual income limits, based on tax filing status, include a full exemption of Minnesota state income tax if your adjusted gross income (AIG) falls within the annual income limit. Additionally, a phased-out reduction of state income tax on social security benefits may apply, if your annual income is over the exemption limit.

> ***<u>Example:</u> a single or head of household filer making $82,000 would be over the annual income limit for a full exemption but would still receive a 90% reduction in state income tax on social security benefits.***

Additional information on these changes can be found on the Minnesota Department of Revenue's website at: [https://www.revenue.state.mn.us/tax-law-changes.](https://www.revenue.state.mn.us/tax-law-changes)

Opportunities in Cash & Cash Alternatives

When it comes to savings, 2023 is providing new opportunities for some and memories of the good old days for others. The Federal Reserve's increase in interest rates over the past 18 months has created opportunities to receive interest on cash and short-term fixed income investments. Investors have to look back to 2007 for comparable short-term interest rates. Given this dramatic change, we felt it would be helpful to list a few options available for income-producing cash alternatives.

▶ HIGH YIELD SAVINGS:

High yield savings accounts tend to provide higher interest than traditional savings accounts, while providing FDIC insurance of up to $250,000 per depositor per insured bank. Some programs, such as the Raymond James Enhanced Savings Program (ESP), pool multiple banks together to provide FDIC insurance of up to $50 million per depositor while offering a competitive yield (5% at the time or this article) and daily liquidity.

▶ US TREASURY BILLS (T-BILLS):

T-Bills are short-term debt obligations issued by the US government. T-Bills have maturities of one year or less and are considered very low risk investments. They are typically sold at a discount and mature at full face value. Treasuries are generally exempt from state and local tax, which can make the after-tax return more attractive than alternatives. (A 1-Year US T-Bill is yielding approximately 5% as of June 30, 2023)

▶ MONEY MARKET FUNDS:

Money market funds are a type of mutual fund that invests in a portfolio of high quality, short-term debt securities and pay income based on the current interest rate environment. These funds are not FDIC insured, typically provide daily liquidity and interest payments that will fluctuate based on market interest rates. (The Fidelity Money Market Fund (FNSXX) is yielding approximately 5% as of June 30, 2023.)

▶ CERTIFICATE OF DEPOSITS (CD'S):

CD's are FDIC insured time deposits with a fixed term and interest rate. Time commitments can range from months to years and there can be a penalty for early termination. CD buyers are guaranteed to get fixed interest payment for the life of the CD regardless of what happens with interest rates and receive the full face value at maturity.

Brokered CDs can offer more liquidity by trading in a market similar to that of other bonds. Holders of brokered CDs can access the invested funds prior to maturity by selling the CD to another buyer, however there can be fluctuation in the price if sold before maturity. (A 1 Year CD is yielding approximately 5% as of June 30, 2023)

For income seeking investors, it wasn't long ago when holding cash was viewed as a lost opportunity. Those days seem like distant memories, at least for the immediate future. If you would like to discuss options for your cash reserves, feel free to call us or discuss with us at our next review meeting.

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If at any time you wish to opt out of text message correspondence, simply respond with "STOP" and we'll reach out to you through phone or email instead. Please keep in mind this number is for text messaging purposes only. If you'd like to speak with your advisor on the phone, please continue to use their original number. Please also bear in mind that orders can never be requested via text.

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