FINANCIAL SENSE

FOR CREDIT UNION MEMBERS

Do You Need an Umbrella?

An umbrella insurance policy is a tool to help protect your family and your assets. It adds an extra layer of protection above your other liability policies like automobile or homeowners. If you are involved in a major accident, having an umbrella policy can save you from costly legal claims and judgments.

All About You

Having an umbrella insurance policy kicks in when your other policies are exhausted. If you're involved in a serious car accident and you're sued for injuries that exceed the limits of your car insurance, your umbrella policy will kick in and help cover the costs saving your wages and assets from garnishment or liens. It's important to note that umbrella policies won't cover your own injuries or damage. You'll need to access other insurance policies like your health or car insurance for these costs.

Your Family

Often umbrella policies will extend to cover liability and damages caused by your spouse or children who may not have liability insurance in their name.

Be Alert

Umbrella policies can contain a list of excluded activities that won't be covered. Common exclusions include breach of contract, boating or other watercraft use, injuries resulting from criminal acts or business activity or losses. If you have a business, consider getting a business-specific policy.

What's Your Number?

Work with an insurance professional to determine how much coverage you'll need. Some use net worth as a guide. For example, if your net worth is $1.5 million and your auto insurance has a $300,000 liability cap, you'll need $1.2 million in umbrella insurance. Most insurers sell umbrella policies in $1 million increments and some will require you to have a minimum amount of coverage from your other policies before you can buy an umbrella policy from them.

Umbrella insurance is generally affordable costing a few hundred dollars a year for a million dollars in coverage. With some policies covering your hobbies and vacation activities like renting jet skis or motor bikes, buying umbrella insurance is an affordable solution for your insurance needs. Consult with your insurance agent to learn more.

FIRE stands for Financial Independence, Retire Early. It's a financial movement growing in popularity as more people seek to eliminate debt and build savings so they can retire earlier than usual. This movement focuses on some smart financial strategies:

Reduce. FIRE's first step involves elimination of all debt and reducing expenses. The goal is to live debt free.

Increase. FIRE followers also look for ways to increase their income. Things like switching jobs for a significant pay increase, working side gigs or generating passive income from owning rental property add money toward the early retirement goal.

Invest. The last tenement of FIRE involves sound investing strategies. Start by maxing out retirement plan contributions. And if your employer offers a matching contribution, be sure you're saving at least the minimum amount to get the maximum contribution.

Credit Card Lures

Credit card companies attract new customers with enticing offers. If you've recently received an offer, beware of these pitfalls.

0% Interest Rates

That 0% interest rate may be for a limited time so if you fail to pay the entire principal balance by the end of the introductory period, you'll be charged interest.

Sign-on Bonuses

Often a bank will offer a cash sign-on bonus if you make certain purchases. Maybe you'll have to spend $2,000 in the first three months. However, the bank is counting on you not paying the balance in full so they can collect interest. Any sign-on bonus you receive may be less than the interest you pay.

Annual Fees

Many of the points, miles or cash back cards have an annual fee. While it might be tempting to get that card with 2% cash back on every purchase, you'll need to spend $4,750 each year to earn enough cash back to cover the cost of a $95 annual fee.

Paying off your debt is a liberating feeling. If your New Year's resolution is to become debt-free, consider using one of these debt payoff strategies to achieve your goal.

Snowball

The snowball payoff method involves paying off your smallest balance first. Start by paying the minimum on all but the smallest balance on which you pay as much as you can afford until it's paid in full. Then roll that amount into the next debt on your list.

Avalanche

The avalanche method is similar to the snowball method but has a different focus. The goal is to pay the least amount of interest. Whereas the snowball method doesn't consider interest rates when prioritizing debts, the avalanche method works to pay off the debt with the highest rate first. Make your list of debts and include the interest rates for each one. You'll use the same payment strategy as with the snowball method, except you'll pay off debt with the highest interest rate first.

Consolidation

Debt consolidation works to combine multiple debts into one. Generally, debt consolidation aims to reduce your monthly payment and may or may not decrease your interest rate. If you're considering debt consolidation, be sure to calculate the total interest you'll pay under the new loan versus the old rate.

Minimum Payment Calculator

Credit card balances are expensive. Consider how much a $1,000 purchase on a credit card charging 20% interest will ultimately cost you and how long it will take to pay it off. *

MONTHLY PAYMENT	NUMBER OF PAYMENTS	TOTAL COST
$25	127 Months	$2,197.08
$50	60 Months	$1,417.95
$100	32 Months	$1,185.47

**https://www.bankrate.com/calculators/credit-cards/credit-card-minimum-payment.aspx*
This is a hypothetical example. It is not representative of any specific investment strategy or combination of investment strategies. Actual results may vary.

Economics 101

You may have heard the economic terms inflation, deflation, and hyper-inflation. We'll explain what these terms mean.

Inflation

When too much money chases too few goods, we have inflation. Inflation happens when prices increase due to

high demand and either a decrease in supply or a supply that doesn't keep up with demand.

In theory, the recent infusion of cash in the form of aid due to the pandemic, could lead to an increase in demand because people are going to spend that money.

Inflation can be slowed or avoided if the excess money is saved and not spent. Inflation isn't entirely bad unless it happens quickly creating hyperinflation.

Hyper-inflation

When prices of goods and services increase significantly and quickly, hyper-inflation happens. This devalues currency and if severe, some people may trade other things of value instead of currency. This could be livestock, gold or other goods that are easily traded.

Hyper-inflation usually results when a government incurs financial or political stress. Wars and declining tax revenue are some of the culprits.

Deflation

The opposite of inflation is deflation. This is when prices decrease usually due to excess supply of goods and a decreased demand for those goods. Deflation can also happen when there is a decrease in the money supply from a reduction of debt availability, (banks aren't lending or are making it more difficult to obtain a loan), or when there is a cash outflow from an economy, (investing in foreign markets instead of domestic investment).

While the U.S. economy remains healthy, understanding these basic economic principles may help you to interpret what economists are saying and how supply and demand influence prices.

Retirement Income

Planning for retirement involves estimating monthly income needs and determining which retirement funds to tap first. There are several general retirement income strategies to consider, but the key is to customize withdrawals to best fit your situation. Here are a few:

The 4% Rule

Many people use the 4% rule and withdraw 4% of their savings each year. If the bulk of your retirement savings are subject to market volatility, you risk drawing down your savings too quickly if the market takes a downturn.

Fixed Amount

Another option is to withdraw a fixed amount each year based upon your budgeting needs. For simplicity, you could withdraw the same amount each year and reassess your situation annually. And if changes are needed, make them at that time.

Interest Only

This approach has you withdraw only interest payments you receive from your investments. For this method to be beneficial, most, if not all, of your retirement savings will need to be invested in fixed income securities. The benefit of only drawing on your interest payments for your retirement needs means that your principal remains intact.

RMDs

When developing the strategy that's right for you, you'll want to plan for taking required minimum distributions (RMDs) from your tax-deferred plans (e.g. traditional IRAs, 401(k) or other employer sponsored plans). The required distribution amount depends on your age and the balance of your accounts. Work with your tax and financial professionals to determine which retirement distribution strategy works best for you.

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