It's **Your** Money

Financial Planning

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Financial planners

- Overview
  - Independent vs. associated with a brokerage firm
  - Compensation method
    - Commission
    - Fee plus commission
    - Fee-offset
    - Fee-based
    - Fee-only

Financial planners

- Credentials
  - Registered investment advisors
  - Certified financial planner (CFP®)
  - Chartered Financial Consultant (ChFC)
  - Chartered Financial Analyst (CFA)
- Experience
- Rapport/trust

For more information

- Financial Planning Association (FPA)
  - www.fpaocc.org
- National Association of Personal Financial Advisors (NAPFA). Fee-only planners
  - www.napfa.org
  - 888-Fee-Only or 1-888-333-6659

What is financial planning?

A process that includes analysis, integration & implementation of

- Goals & assumptions
- Cash flow & budgeting
- Risk management/insurance
- Tax planning
- College planning
- Investment planning
- Retirement planning
- Estate planning
- Miscellaneous & special situations planning

Who benefits from good planning?

- You and your spouse/partner
- Your family and friends
- Anyone else who needs financial guidance
  - Help to friends
  - Your role as executor for an estate

Personal data:
Dig deep for the details!

- How you hold property, e.g., Joint with rights of survivorship, tenants in common, etc.
- Named beneficiaries – insurance policies, bank & brokerage accounts (“pay on death”) & IRAs
- Pensions – joint & survivor?

Goals & objectives

"If you don't know where you're going, you may wind up somewhere else"

Goals & objectives

- Formulate goals (together w/spouse or partner)
- Include a dollar amount and a date
- Consider best case/worst case/most likely case
  - What if you're disabled?
  - What if you pass away?
- Rank or prioritize goals

Goals & objectives

- Segment retirement years into stages
  - *Young retirement:* may stay in current home, work part time, travel
  - *Middle retirement:* may sell home, move to smaller place/retirement community; may cut back on work, do more travel
  - *Later retirement:* no part-time work, more travel, more health care costs

Goals & objectives

Example:

- Help grandchildren with college tuition costs by gifting $2,000/yr to each of the three every September for four years, starting this year
  - Total cost: $6,000 x 4 = $24,000
  - In our wills/trusts: set aside $24,000 for grandchildren for college costs

Goals & objectives

Example:

- Sell home and buy smaller home/condo in Leisure World
  - Current home value: $550,000
  - Mortgage: 0
  - Total new home cost: $425,000
  - Remainder: $125,000

Assumptions

Inflation is here to stay

- 2018 Social Security increase 2.8%
- 3% long-term average
- 5% health care costs

- Return on investments*
  - Corporate bonds ~ 3.5% a year
  - Large stocks ~ 13.4% a year

* 10-year average of Vanguard Total Bond Market Index & Vanguard S&P 500 funds through August 31st, 2019. Past performance is no guarantee of future returns.

Identify issues & problems

- Cash flow: does outflow exceed inflow?
- Organization: 18 different accounts?
- Coordination: everyone on the same page?

Cash flow – income statement

- Track all sources of income
  - Earned income
  - Self-employment or 1099 income
  - Dividends, capital gains, rental income and royalties
  - Remember reinvested dividends and capital gains on mutual funds

Cash flow – income statement

- Track all expenses
  - Esp. once a year or other extraordinary expenses
  - Count cash expenses or ATM use
  - Break down expenses on credit cards
  - Include credit card and other debt payments

Cash flow – balance sheet

- Assets – what you own
  - Include cash value of life insurance, annuities
  - Note who owns it/how titled, e.g., joint with rights of survivorship (helpful for estate planning)
  - Be sure you have original cost or “basis” information

Cash flow – balance sheet

- Liabilities – what you owe
  - Mortgages, including home equity loans
  - Car loans
  - Credit card balances
  - Personal loans

Preparing your own balance sheet

- Assets – what you own
  - Include cash value of life insurance, annuities
  - Note who owns it and how titled, e.g., joint with rights of survivorship (helpful for estate planning)
  - Check on possible “lost” pensions
  - Be sure you have original cost or “basis” information

Risk management

Obtain objective advice to be sure you have proper types and coverage

- Health insurance
- Disability insurance
- Long-term care insurance
- Homeowner’s, auto, and personal liability insurance
- Life insurance

Risk management – life insurance

- Who needs it?
- How much is enough?
- Review old policies periodically

Risk management – life insurance

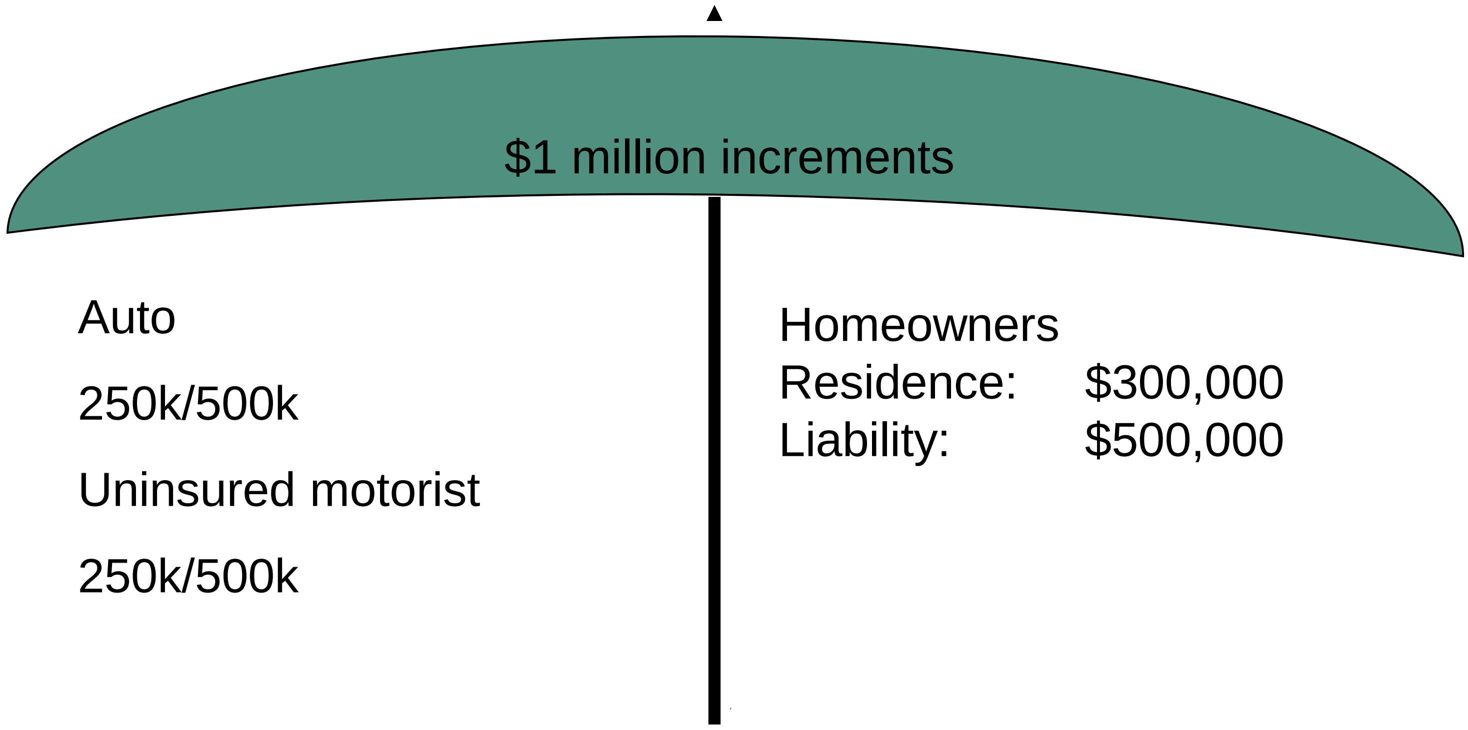
- You need an amount sufficient to replace potential lost income provided by wage earner(s)
- People with children generally need more
- Term vs. cash value insurance
- Life insurance as an estate planning tool

Risk management – disability insurance

- Most people do not have enough disability insurance
- Policies can focus on disability for your “own occupation” or “any occupation”
- It is usually wise to buy as much as you can through your employer’s plan

Risk management - the Umbrella concept

Additional liability coverage



Auto

250k/500k

Uninsured motorist

250k/500k

Homeowners

Residence: $300,000

Liability: $500,000

Tax planning

Determining your tax bracket

- Deductions
- Exemptions
- Taxable income

Tax planning – tax strategies

Tax savings strategies

- Defer income
- Accelerate deductions
- Maximize pre-tax savings

Deductions

- Medical
- Taxes
- Interest
- Charitable contributions
- Miscellaneous itemized deductions

Watch out for the AMT!

Retirement planning

- How much will you have?
- How much will you need?
- Calculate impact of additional savings
- What is the impact of taxes and inflation?
- How much can you spend?
- How should you invest to meet your goal?
- Social Security and Medicare

Education planning

- EE bonds for education -- phaseouts
- Coverdell Education Savings Account - $2,000 limit
- Regular investment accounts
  - Pay ordinary and long term capital gains as with any account
- UGMA/UTMA
  - $15,000 annually
  - Child gets money at age of majority

Education planning

- 529 Savings Plans (now also for private K-12)
  - Individual funds
  - Age-based and risk-based funds
  - Tax-free withdrawals for qualified expenses
  - Contribution limit $475,000 for CA
  - Small initial investment – as low as $25
- 529 Pre-Paid Tuition Plans

www.savingforcollege.com

Nest egg needed to sustain various spending levels

Annual pre-tax expenses	ROR 2%	ROR 5%	ROR 8%
$100,000	$3.5 million	$2.3 million	$1.6 million
$150,000	$5.2 million	$3.5 million	$2.5 million
$200,000	$6.9 million	$4.6 million	$3.3 million

3% inflation

30 year retirement

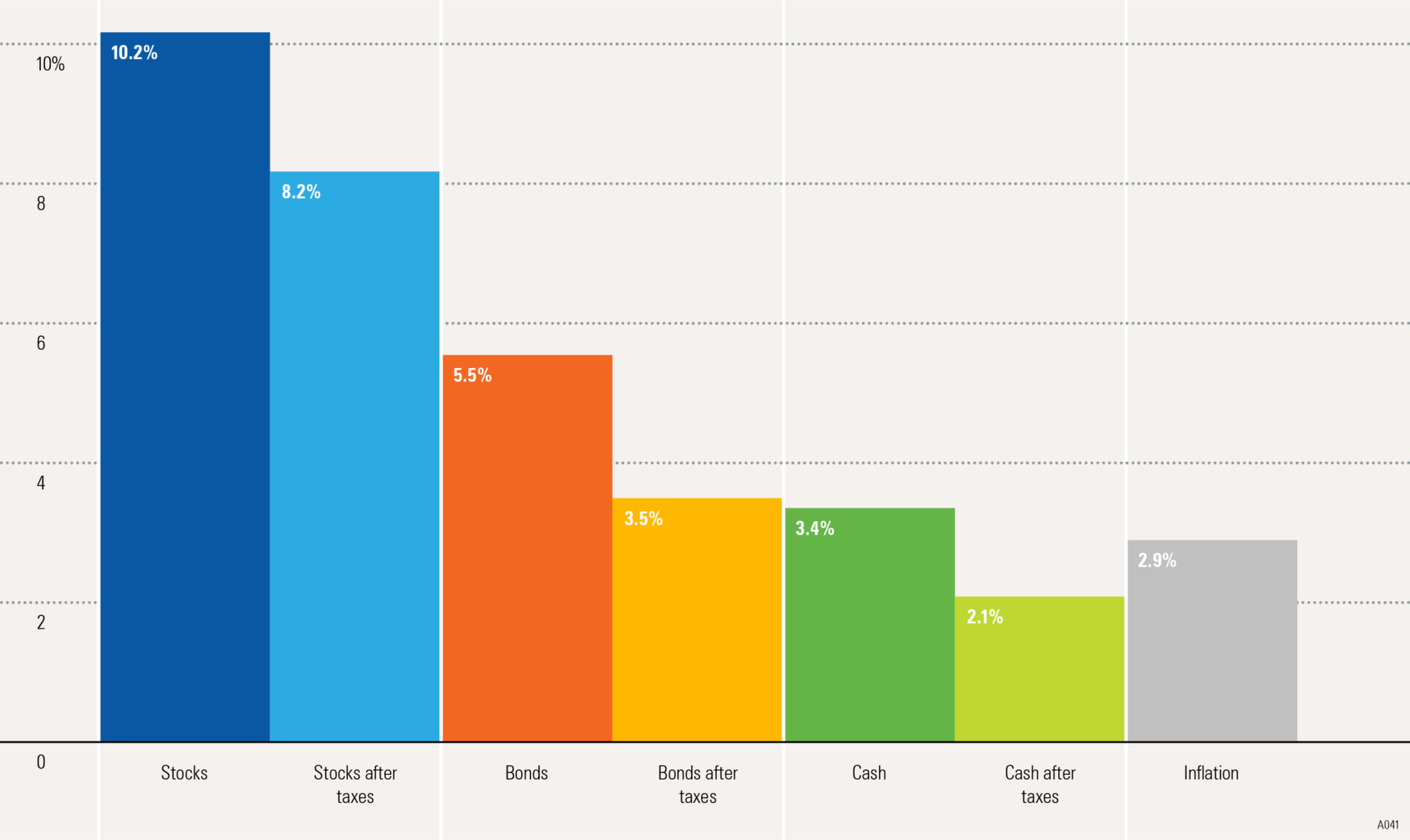
Retirement planning: are you saving enough?

To accumulate $2.3 million over 20 years, you would need to invest:

- $86,000 per year at 3%
- $70,000 per year at 5%
- $50,000 per year at 8%

Taxes Significantly Reduce Returns

1926–2017



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Retirement planning -- projections

Rule of 72

- A rough estimate of how long it will take (or the return you will need) to double your money
- Divide 72 by the return your money is getting
  - 72/6% = 12 years; at 6% interest, your money will double in 12 years; OR
  - 72/10 years = 7.2%; if you want your money to double in 10 years, you need a 7.2% return

Retirement planning – retirement income resources

- Social Security
- Employer retirement plans
- Other savings
  - Spouse/partner retirement plans
  - Plans from former employers
  - IRAs
  - Regular investment accounts
  - Inheritance?

Retirement planning – 401(k) contributions

- 2018 contribution maximum $18,500
- 2017 over-50 catch up $6,000
- The best way to save for retirement – you get an immediate return because of the tax break!

Retirement planning – Social Security

- Based on “quarters” of coverage
- Amount is based on how much you earned while working
- Annual benefits increase with inflation
- Reduced amount for benefits prior to “normal retirement age”
- Increased amount for delaying benefits past normal retirement age

Retirement planning – Social Security

- Social Security – Normal Retirement Age (NRA)

Birth Year	NRA	Birth Year	NRA
Before 1938	65	**1955**	66 2 mos
1938	65 2 mos	**1956**	66 4 mos
1939	65 4 mos	**1957**	66 6 mos
1940	65 6 mos	**1958**	66 8 mos
1941	65 8 mos	**1959**	66 10 mos
1942	65 10 mos	**After 1959**	67
1943-1954	66		

Retirement planning – Social Security

Maximum monthly benefit

For someone retiring in 2017, based on a typical retiree who has paid into the Social Security system over his or her entire career.

Age 62	$2,153
At FRA	$2,687
Age 70	$3,538

Retirement planning – taxation of retirement benefits

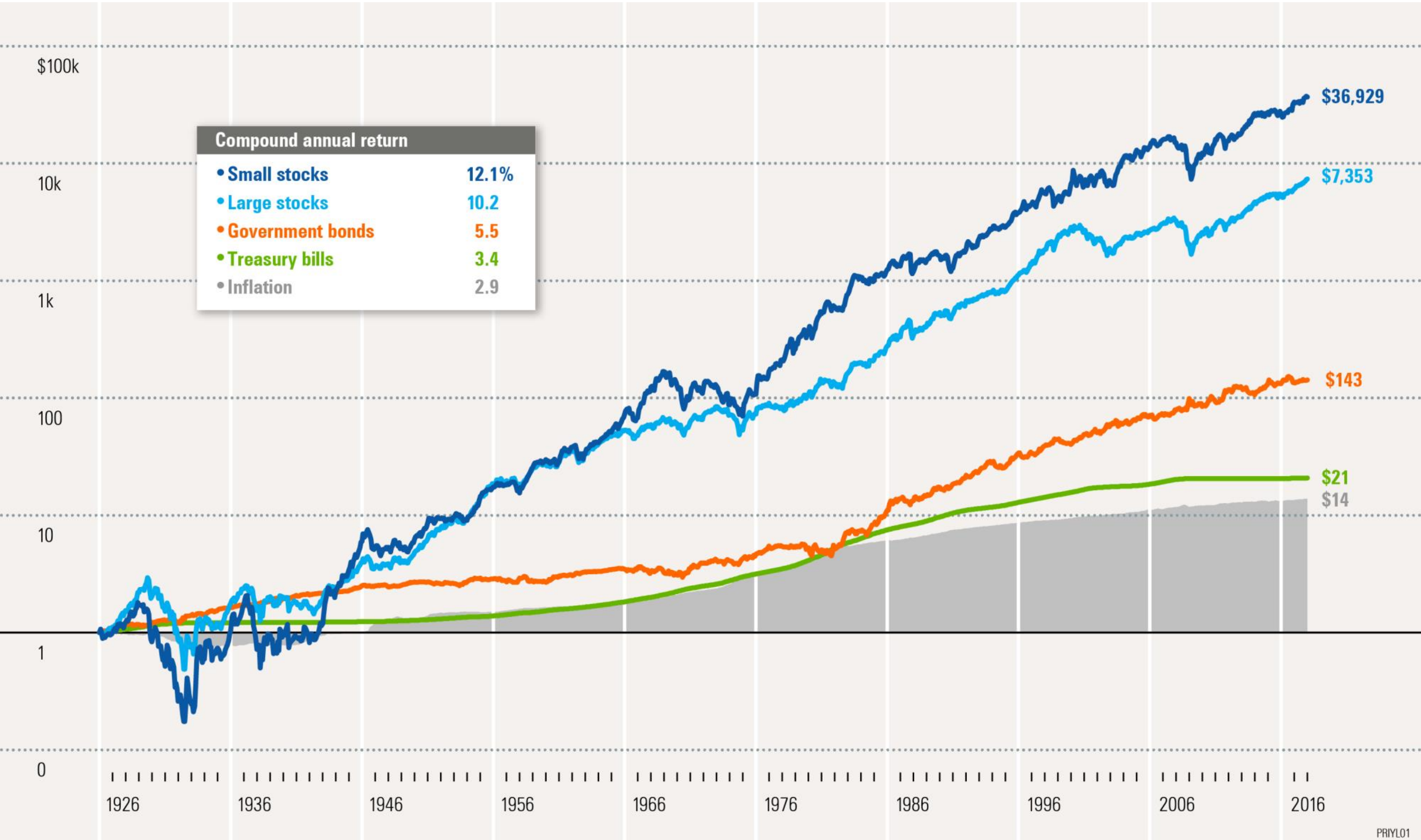
- Pre-tax retirement contributions decrease taxable income now
- Earnings grow tax-deferred
- You pay taxes when you receive the benefit

Investment planning – identify issues and problems

- What is your investment philosophy?
- Investment portfolio not diversified?
- Investment losses, but still a tax liability?
- How to benchmark performance?
- Trouble keeping track?

Ibbotson® SBBI®

Stocks, bonds, bills, and inflation 1926–2017



Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

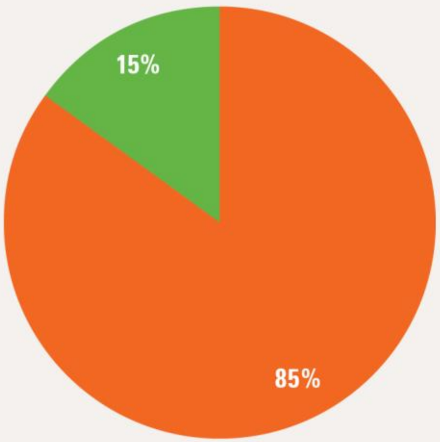
Investment planning – asset allocation process

- 1st step: determine asset classes to be used
- 2nd step: make a pie!
- 3rd step: implement, rebalance periodically, and evaluate performance

Potential to Reduce Risk or Increase Return

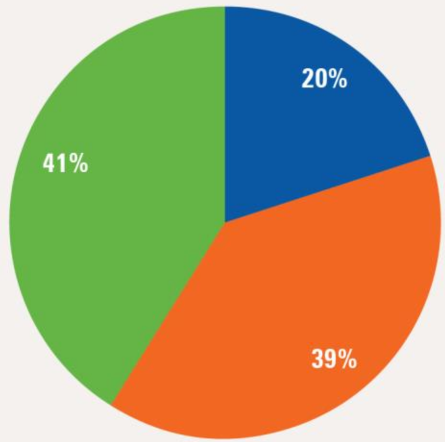
1970–2017

Fixed-income portfolio



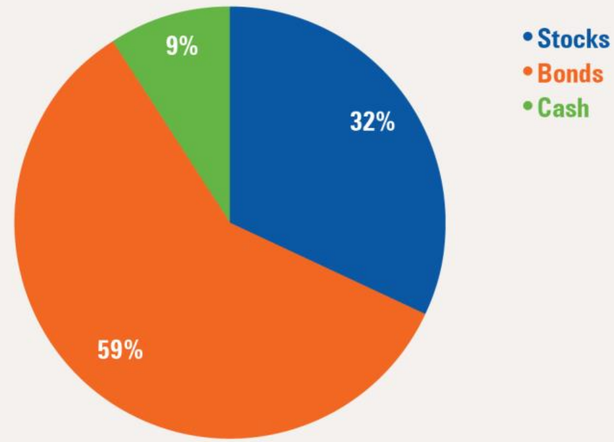
Return: 7.4%
Risk: 7.7%

Lower-risk portfolio



Return: 7.4%
Risk: 5.4%

Higher-return portfolio



Return: 8.8%
Risk: 7.7%

PM145

Past performance is no guarantee of future results. Risk and return are measured by standard deviation and compound annual return, respectively. They are based on annual data over the period 1970–2017. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

Investment planning – diversifying stocks

- Domestic vs. international stocks
- Growth vs. value funds
  - Growth: high price/earnings ratio
  - Value: low price/earnings ratio
- Small cap vs. large cap funds
- Market capitalization – number of shares outstanding multiplied by share price
  - Small cap: generally $300 million - less than $2 billion
  - Mid cap: generally between $2 - $10 billion
  - Large cap: generally more than $10 billion

Investment planning – income tax consequences

- Always look at *total return*
- Very few should own muni bonds
- Beware of mutual fund distributions
- Beware of annuities: they may be the most tax *inefficient* investment

Investment planning – calculate tax-equivalent yield

Example

- A muni bond yields 3%; you are in 35% combined marginal tax bracket

  3% / (1- .35%) =

  3% / .65 = 4.6%

You would need a taxable bond yielding at least 4.6% to beat the tax-free bond yielding 3%.

Investment planning – annuities

- What are they?
- Do they make sense?
- If you have one
  - Should you get out? How?
  - Should you annuitize?

Estate planning – identify issues and problems

- Estate planning
  - Durable power of attorney for finance
  - Advanced health care directive
  - Will(s) for both of you
  - Living trusts
  - Letter of instruction

Estate planning – identify issues and problems

- Beneficiary designations on accounts
  - Be sure they're up-to-date
  - Naming a trust vs. naming a person
  - Remember that named beneficiaries take priority over those named in a will!
  - Joint accounts – gift issues

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