

# It's Your Money

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## Financial Planning

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# Today's topics

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- Regulation of investment industry
- The financial planning process
- Taxes: what's new for 2022



# Financial planners & advisors

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- Overview

- Independent vs. associated with a brokerage firm (or “broker-dealer”)
  - Registered representatives
- Compensation method
  - Commission
  - Fee plus commission
  - Fee-offset
  - Fee-based
  - Fee-only

# Financial planners & advisors

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- Credentials
  - Registered investment advisors (RIAs)
    - Or “Investment Advisor Representatives” of an RIA firm
  - Certified financial planner (CFP)
  - Chartered Financial Consultant (ChFC)
  - Chartered Financial Analyst (CFA)
- Experience
- Rapport/trust

# Regulators

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- Financial Industry Regulatory Authority (FINRA)
  - Self-regulatory organization for all U.S. securities firms
  - Any individual who sells securities must register with FINRA under the sponsorship of a broker-dealer.
- Securities & Exchange Commission (SEC)
  - Regulates securities industry and RIAs with more than \$100 million in assets under management
- California Department of Financial Protection and Innovation (DFPI)
  - Regulates securities markets and RIAs with less than \$100 million AUM.

# Ask First! form

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- Education
- Credentials/licenses
- What services do they provide
- ARE THEY A FIDUCIARY???
- Will they put your interests first?
- How do they get paid?



# The financial planning process

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- Understand the Client's personal and financial circumstances
- Identify and select goals (and prioritize them)
- Analyze current course of action and potential alternatives
- Develop the financial planning recommendations
- Present the financial plan
- Implement the planning recommendations
- Monitor and update/adjust the plan



# Net Worth Statement

John & Marie Sample

March 31, 2022

## ASSETS

### Savings And Investments

Checking Accounts	\$2,500	
Bank & Credit Union Savings	35,000	
Certificate of Deposit	30,000	
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		\$67,500

### Retirement Accounts

Qualified Plans-John	\$100,000	
Qualified Plans-Marie	200,000	
		<hr/>
		\$300,000

### Other Assets

Residence	\$925,000	
Autos	15,000	
		<hr/>
		\$940,000

<b>TOTAL ASSETS</b>	<b>\$1,307,500</b>
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## LIABILITIES

Residence Mortgage	\$138,000	
Credit Card Debt	3,000	
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		\$141,000

<b>TOTAL LIABILITIES</b>	<b>\$141,000</b>
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<b>Net Worth (Assets less Liabilities)</b>	<b>\$1,166,500</b>
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# Tax planning

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Financial strategies are based on your tax profile

- Deductions

- Standard deduction or itemize?

- What's your tax bracket?

- Taxable income

# 2022 (ordinary income) tax rates

<b>INCOME TAX</b>			
<b>2022</b>			
<b>If Taxable Income Is:</b>			
<b>Over</b>	<b>But Not Over</b>	<b>The Tax Is</b>	<b>Of the Amount Over</b>
<b>Married, Filing Jointly and Surviving Spouses</b>			
\$0	\$20,550	+ 10%	\$0
\$20,550	\$83,550	\$2,055 + 12%	\$20,550
\$83,550	\$178,150	\$9,615 + 22%	\$83,550
\$178,150	\$340,100	\$30,427 + 24%	\$178,150
\$340,100	\$431,900	\$69,295 + 32%	\$340,100
\$431,900	\$647,850	\$98,671 + 35%	\$431,900
\$647,850	—	\$174,253.50 + 37%	\$647,850
<b>Unmarried Individual</b>			
\$0	\$10,275	+ 10%	\$0
\$10,275	\$41,775	\$1,027.50 + 12%	\$10,275
\$41,775	\$89,075	\$4,807.50 + 22%	\$41,775
\$89,075	\$170,050	\$15,213.50 + 24%	\$89,075
\$170,050	\$215,950	\$34,647.50 + 32%	\$170,050
\$215,950	\$539,900	\$49,335.50 + 35%	\$215,950
\$539,900	—	\$162,718 + 37%	\$539,900

# 2022 (ordinary income) tax rates

Married Individual Filing Separately			
\$0	\$10,275	+ 10%	\$0
\$10,275	\$41,775	\$1,027.50 + 12%	\$10,275
\$41,775	\$89,075	\$4,807.50 + 22%	\$41,775
\$89,075	\$170,050	\$15,213.50 + 24%	\$89,075
\$170,050	\$215,950	\$34,647.50 + 32%	\$170,050
\$215,950	\$323,925	\$49,335.50 + 35%	\$215,950
\$323,925	—	\$87,126.75 + 37%	\$323,925
Head of Household			
\$0	\$14,650	+ 10%	\$0
\$14,650	\$55,900	\$1,465 + 12%	\$14,650
\$55,900	\$89,050	\$6,415 + 22%	\$55,900
\$89,050	\$170,050	\$13,708 + 24%	\$89,050
\$170,050	\$215,950	\$33,148 + 32%	\$170,050
\$215,950	\$539,900	\$47,836 + 35%	\$215,950
\$539,900	—	\$161,218.50 + 37%	\$539,900

# More favorable tax rates

Qual. Dividends and Long-Term Capital Gains $\geq$ 12 Month Holding Period		
Tax	Single	Married Filing Jointly
0%	\$0 – \$41,675	\$0 – \$83,350
15%	\$41,676 – \$459,750	\$83,351 – \$517,200
20%	above \$459,750	above \$517,200
Short-term capital gains at ordinary rates, less than 12-month holding period.		

**ACA Surtax 3.8% on Net Investment Income: Single \$200,000, MFJ \$250,000**

# 2022 Estate and gift tax rates

## 2022 ESTATE AND GIFT TAX RATES

The top tax rate applicable to estates and living gifts will be subject to a maximum tax rate of 40%.

Estate Tax	Exclusion Amount	Federal Credit	Gift Tax Exclusion
2022	\$12,060,000 <sup>1</sup>	\$4,769,800 <sup>1</sup>	\$12,060,000 <sup>1</sup>

### States with Estate or Inheritance Taxes

CT, DC, HI, IL, IA, KY, ME, MD, MA, MN, NE, NJ, NY, OR, PA, RI, VT, WA.

### Other Estate and Gift Planning Items

	2022
Annual gift tax exclusion	\$16,000
Annual gift tax exclusion for non-U.S. citizen spouses	\$164,000
Generation-skipping tax (GST) exemption	\$12,060,000 <sup>1</sup>
IRC §6166 2% limit for deferred estate tax payments	\$1,640,000
Special use valuation for qualified real property	\$1,230,000

# New Uniform Lifetime Table for RMDs

## REQUIRED MINIMUM DISTRIBUTIONS<sup>2</sup>

### Uniform Lifetime Table

Current Age	Distribution Period	Current Age	Distribution Period
72	27.4	97	7.8
73	26.5	98	7.3
74	25.5	99	6.8
75	24.6	100	6.4
76	23.7	101	6.0
77	22.9	102	5.6
78	22.0	103	5.2
79	21.1	104	4.9
80	20.2	105	4.6
81	19.4	106	4.3
82	18.5	107	4.1
83	17.7	108	3.9
84	16.8	109	3.7
85	16.0	110	3.5
86	15.2	111	3.4
87	14.4	112	3.3

OLD table

72 = 25.6

\$100,000 = \$3,906.25

NEW

\$100,000 = \$3,649.64

7% less

# Investment planning – income tax consequences

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- Always look at *total return*
- Not everyone should own muni bonds
- Beware of mutual fund distributions
- Investment location
- Beware of annuities: they may be the most tax *inefficient* investment



# “Active” and “Passive” Investing

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- Active – ongoing buying and selling of investments
  - May involve higher costs (trading costs, management fees, capital gains)
  - May not perform better than an index of the same category of investments
- Passive – buy and hold, typically using index funds
  - “If you can’t beat the market, buy the market”
  - Usually lower-cost alternative, more tax-efficient

# Retirement planning – taxation of retirement benefits

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- Pre-tax retirement contributions decrease taxable income now
- Earnings grow tax-deferred
- You pay taxes when you receive the benefit
- CA does not tax Social Security
- In taxable accounts, CA muni bonds (usually) tax-free both Federal and CA income tax

# 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 – Social Security

- Social Security – Normal Retirement Age (NRA)

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

# Retirement planning – Social Security

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- 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

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## Maximum monthly benefit

For someone retiring in 2022, based on a typical retiree who has paid into the Social Security system over his or her entire career.

Age 62	\$2,364
At FRA	\$3,345
Age 70	\$4,194

# Financial planners

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# For more information

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