

It's Your Money

Financial Planning II

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Today's topics

- Ask First! Form
- Formulating your plan
 - Net worth
 - Insuring what you have
 - College 529 plans
 - Retirement



Ask First! form

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

Understand your 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	
		<hr/>
		\$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

TOTAL ASSETS	\$1,307,500
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LIABILITIES

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

TOTAL LIABILITIES	\$141,000
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Net Worth (Assets less Liabilities)	\$1,166,500
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Risk management

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

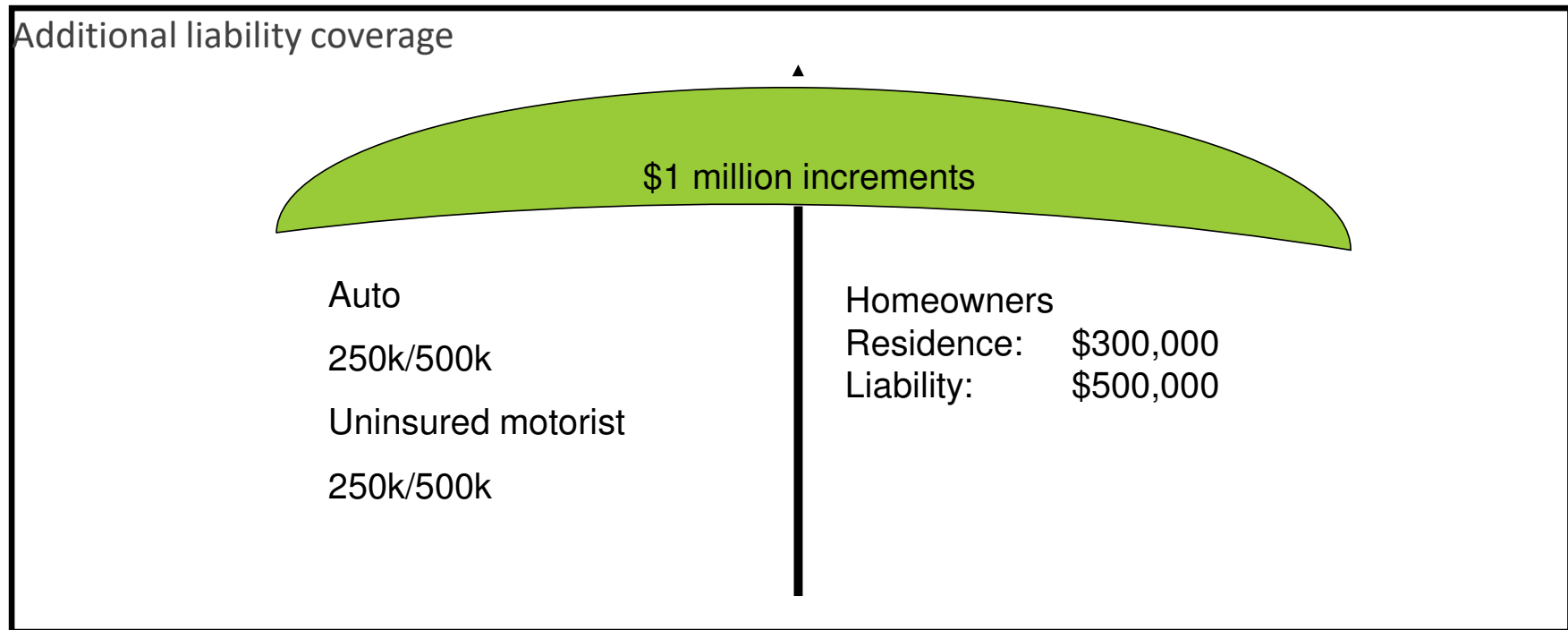
Health insurance

Homeowner's, auto, and personal liability insurance

Long-term care insurance

Life insurance

Risk management - the Umbrella concept



Risk management – life insurance

Who needs it?

How much is enough?

Review old policies periodically

- Do you still need the policy
- Cash value policies – ask agent for “in-force” illustration
- Do NOT cancel a policy until you are SURE you don’t need it

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/balance limit \$529,000 for CA
- Small initial investment – as low as \$25

www.savingforcollege.com

Vanguard 529 comparison tool

529 plans open 15 years+ may be converted to Roth IRAs for the account beneficiary

Lifetime maximum of \$35,000

Annual amount limited to that year's contribution limit, less any regular contributions (no "doubling up")

Big advantage: no earned income required of beneficiary, and no maximum income limits applied.

Can "prime the retirement pump" for the beneficiary.

Waiting for further IRS clarification

529 ABLÉ accounts

Tax-advantaged savings accounts for individuals with disabilities, beneficiary not taxed on earnings in account

Onset of disability before age 26

Total annual contributions for a single tax year is \$17,000

SSI exempts the first \$100,000 from the SSI \$2,000 individual resource limit

Can transfer up to \$17,000/yr from a regular 529 plan to a 529 ABLÉ account

<http://news.morningstar.com/all/dow-jones/fund-news/201802138706/the-new-tax-law-529-education-savings-accounts.aspx>

<http://www.ablenrc.org/about/what-are-able-accounts>

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?

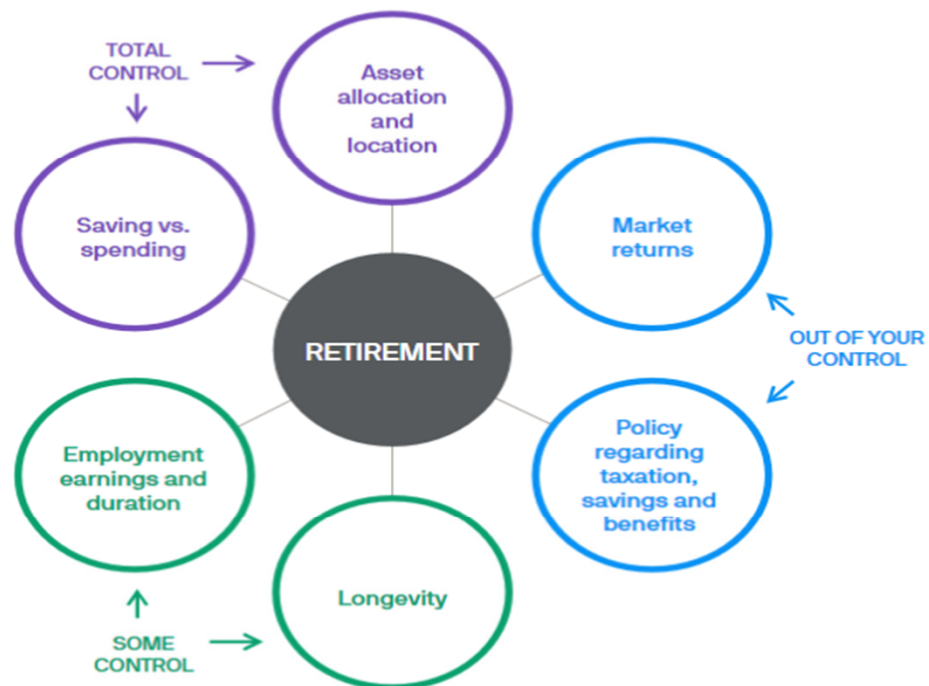
Social Security and Medicare



The retirement equation

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A sound retirement plan

Make the most of the things that you can control but be sure to evaluate factors that are somewhat or completely out of your control within your comprehensive retirement plan.

Source: The Importance of Being Earnest, J.P. Morgan Asset Management, 2013.

J.P.Morgan
ASSET MANAGEMENT

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?

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)

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

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

Maximum monthly benefit

For someone retiring in 2023, based on a typical retiree who has paid into the Social Security system over his or her entire career.

Age 62	\$2,572
At FRA	\$3,627
Age 70	\$4,555

Key changes due to SECURE ACT 2.0

The following table summarizes the ages at which RMDs are generally required to begin under SECURE Act 2.0:

SECURE Act 2.0 Phased-In Timeline For RMD Beginning Ages	
Birth Year	Age at Which RMDs Begin
1950 or earlier	72 (70½ for those who turned 70½ prior to 2020)
1951 - 1959	73
1960 or later	75

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Financial Calculators from Dinkytown.net

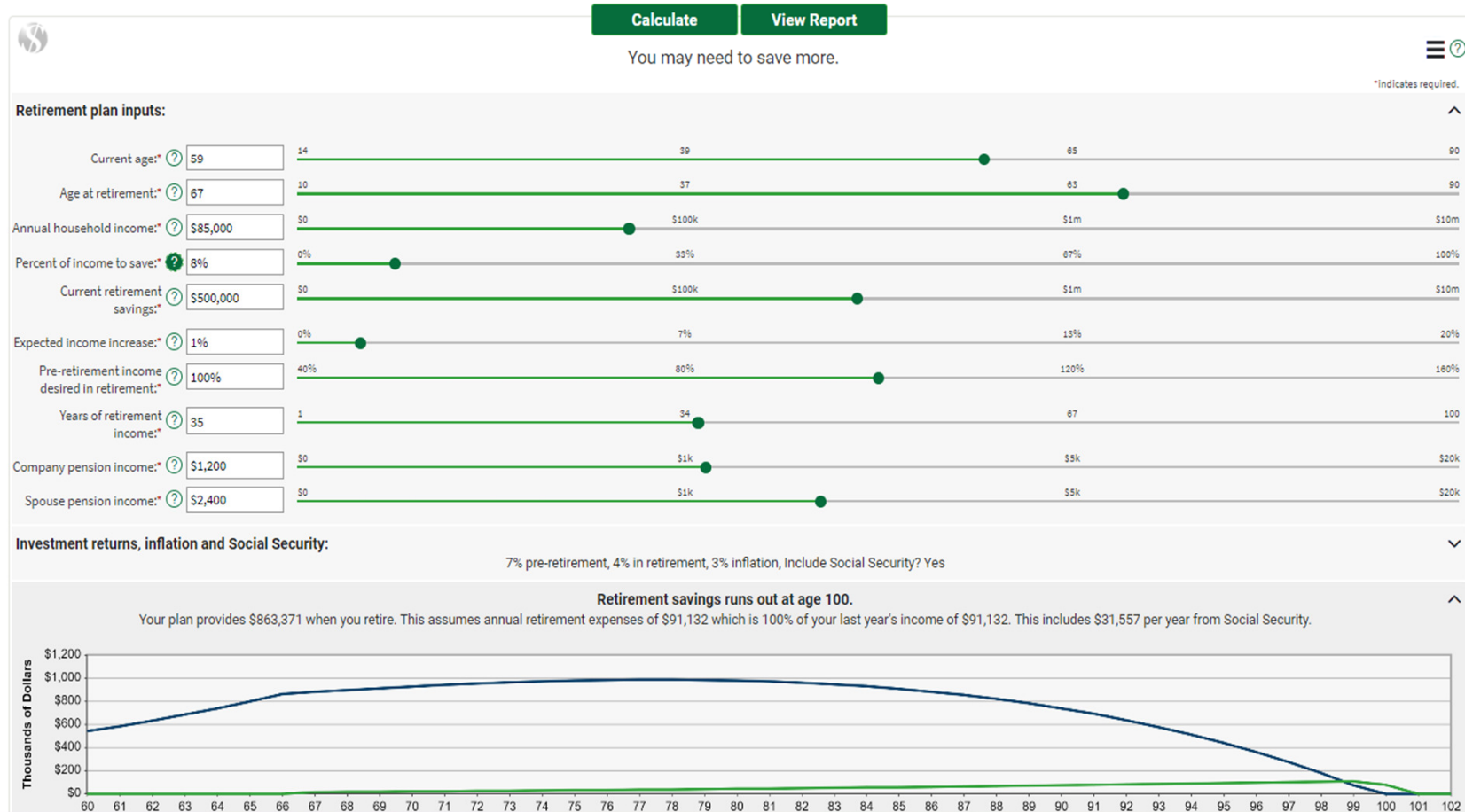
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Retirement Pension Planner Calculator

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Do you know what it takes to work towards a secure retirement? Use this calculator to help you create your retirement plan. View your retirement savings balance and your withdrawals for each year until the end of your retirement. Social Security is calculated on a sliding scale. The more you contribute to your plan, the more your Social Security benefits increase up to, but not over, the maximum.

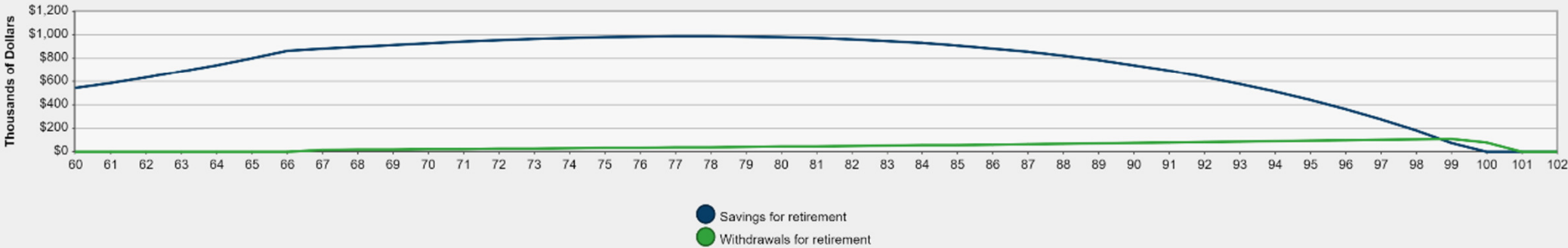


Investment returns, inflation and Social Security:

7% pre-retirement, 4% in retirement, 3% inflation, Include Social Security? Yes

Retirement savings runs out at age 100.

Your plan provides \$863,371 when you retire. This assumes annual retirement expenses of \$91,132 which is 100% of your last year's income of \$91,132. This includes \$31,557 per year from Social Security.

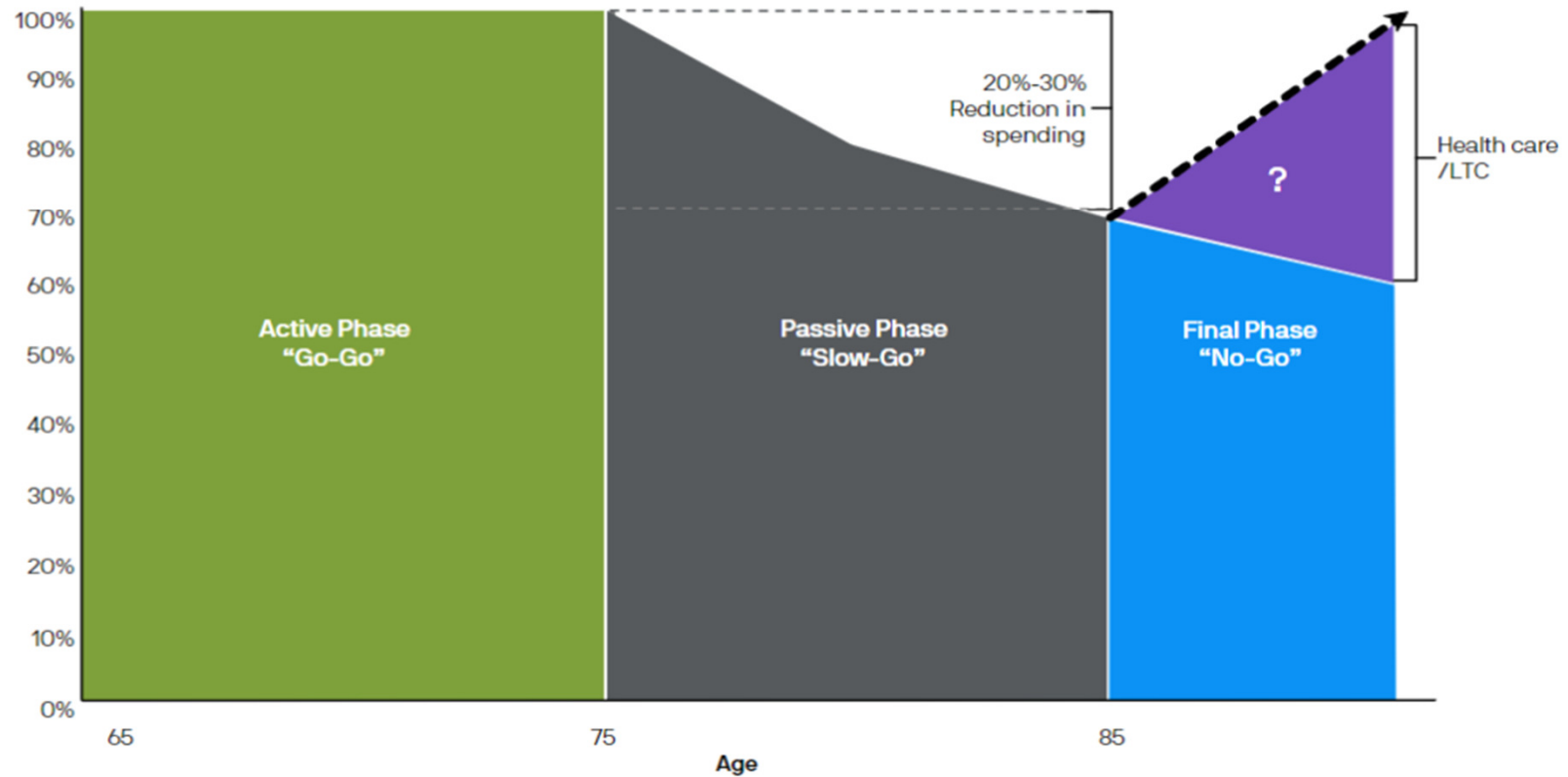


“The Prosperous Retirement”: theoretical spending profile

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Percentage of pre-retirement spending



Source: The Prosperous Retirement: Guide to the New Reality, Michael K. Stein, CFP, 1998. pp. 16-18.

J.P.Morgan
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Structuring a portfolio to match investor goals in retirement

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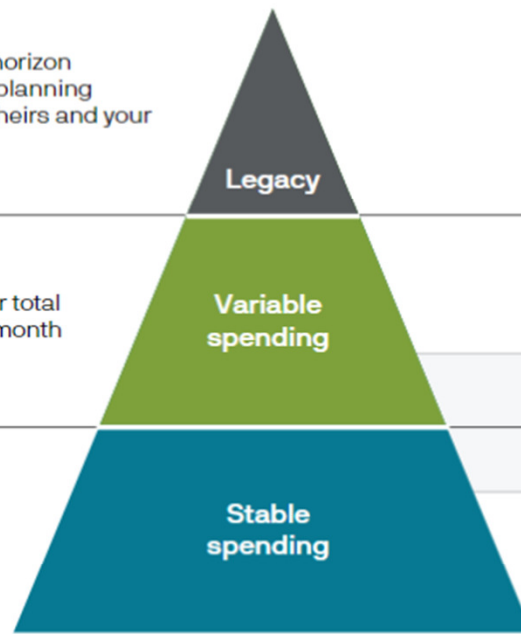
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Considerations

What is the time horizon and appropriate planning strategy for your heirs and your estate goals?

How much of your total spending varies month to month?

How much do you regularly spend each month?



Potential solutions

- Growth-oriented portfolios
- Capital preservation strategies
- Alternatives*

- Cash and cash equivalents

Income distributed from:

- Dividend-paying stocks/funds
- Fixed income securities/funds
- Multi-asset solutions

- Protected lifetime income
- Pension
- Social Security

Building your plan

It may be useful to match dependable income sources with regular retirement spending, while coordinating income-oriented solutions and a cash reserve to meet more variable expenses.

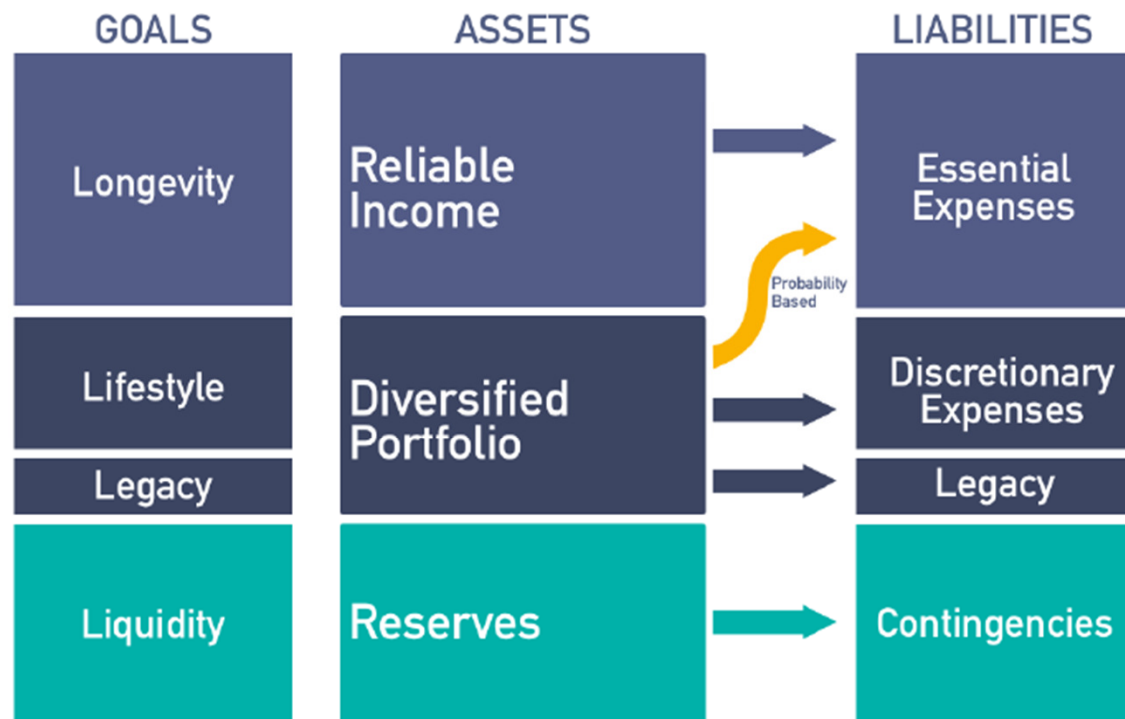
For illustrative purposes only. Fixed income is subject to interest rate risk. Fixed income prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Investing in alternative assets involves higher risks than traditional investments and is suitable only for the long term. They are not tax efficient and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

*Equity, fixed income and cash are considered "traditional" asset classes. The term "alternative" describes all non-traditional asset classes. They include private and public equity, venture capital, hedge funds, real estate, commodities, distressed debt and more.

Source: J.P. Morgan Asset Management.

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Retirement Income Optimization



Qualified Charitable Distributions (QCDs)

\$100,000 limit to be indexed for inflation (beginning in 2024)

One-time opportunity use max of \$50,000 QCD to fund a split-interest entity.

- Charitable Remainder Trust (CRT), Charitable Annuity Trust (CRAT) or Charitable Gift Annuity (CGA)
- Can't use existing CRT or CRAT
- Only income beneficiaries allowed are the IRA owner and spouse.
- Distributions are ordinary income
- Probably only best for CGA. Probably too costly to form CRT or CRAT.
- Income required to begin no less than 1 year after funding, fixed rate 5% or greater.

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

Resources

Dinkytown.net – online calculators

[JP Morgan's Guide to Retirement](#)

Retirementresearcher.com, and Retire with Style podcast, Wade Pfau, PhD.