

# It's Your Money

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## Financial Planning II

May 30<sup>th</sup>, 2024

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# Today's topics

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## Ask First! Form

### Formulating your plan

- Net worth
- Insuring what you have
- Key estate planning documents
- College 529 plans
- Saving and investing
- Retirement



# The financial planning process

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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	
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		\$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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# Risk management

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

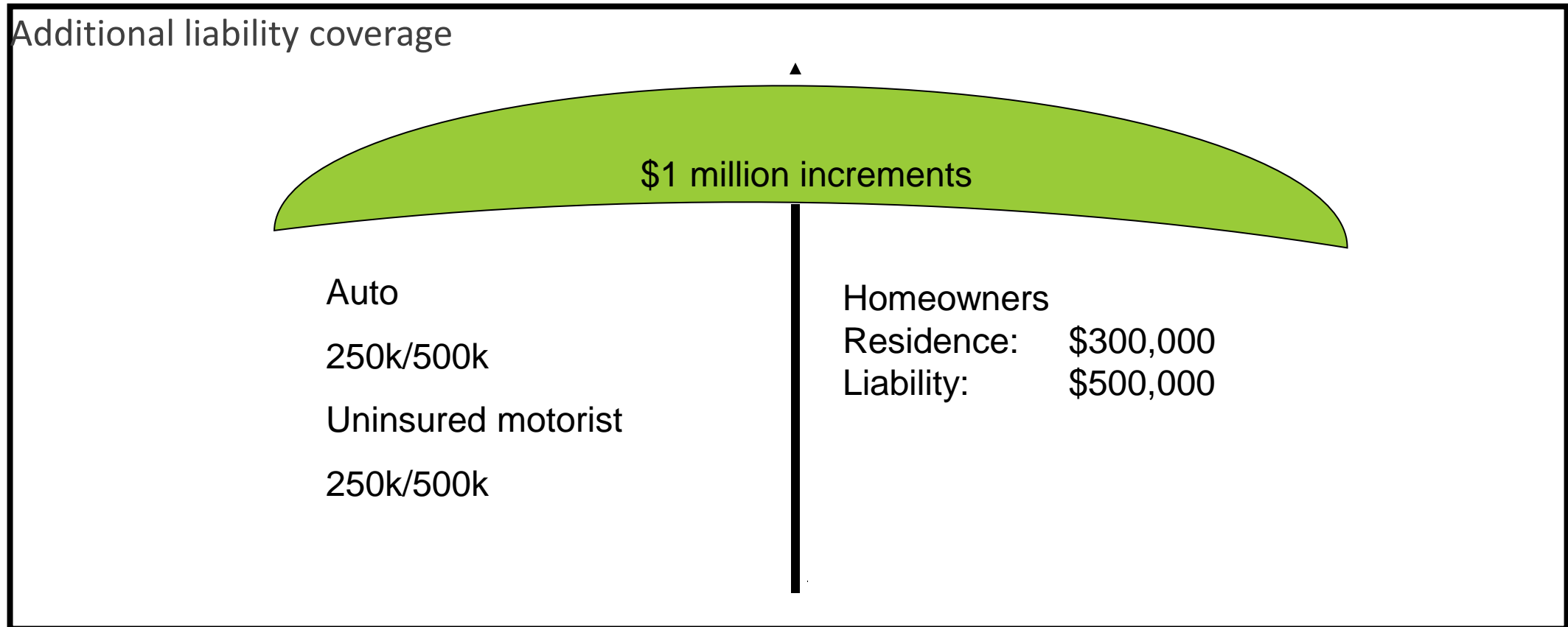
Health insurance

Homeowner's, auto, and personal liability and earthquake insurance

Long-term care insurance

Life insurance

# Risk management - the Umbrella concept



# Risk management – life insurance

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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



# Get more for your savings

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\* Online high-yield savings accounts such as ufb DIRECT 5.25%

-- bankrate.com, nerdwallet.com

\* MaxMyInterest.com – up to 5.36% for a service that moves your funds among high-yield savings accounts

\* Vanguard Federal Money Market Fund 5.26% 7-day SEC yield

\* Brokerage firms for “brokered CDs” and US Treasuries

3 mo 5.459%/5.38%...6 mo 5.371%/5.398%...9 mo 5.334%/5.268%...1 yr 5.253%/5.169%

# Education planning

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## 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 \$15

[www.savingforcollege.com](http://www.savingforcollege.com)

Vanguard 529 comparison tool

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

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Lifetime limit of \$35,000

Annual amount limited to that year's contribution limit, less any regular contributions (no "doubling up"). \$7,000 contribution limit in 2024.

Beneficiary required to have qualifying earned income the year of the rollover.

Can "prime the retirement pump" for the beneficiary.

Waiting for further IRS clarification

# 529 ABLÉ accounts

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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 \$18,000

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

Can transfer up to \$18,000/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>

# More on 529 ABLÉ accounts

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Any amount of ABLÉ savings up to the plan limit, which can be between \$235,000 – \$596,925 depending on the plan, will NOT affect eligibility for:

- Social Security and Disability Insurance (SSDI), or
- Housing Assistance – Housing and Urban Development programs (HUD),
- Supplemental Nutrition and Assistance Program (SNAP),
- Free Application for Federal Student Aid (FAFSA),
- Medicare Parts A, B, C, or D, Medicare Savings Programs, and Extra Help, or
- Any type of Medicaid benefit including Medicaid waiver services.

# Key estate planning documents

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- Will (and guardian for minor children or other dependents)
- Durable power of attorney for finance
- Advanced health care directive
- Revocable “living” trust – for non-retirement assets
  - Home and rental properties
  - Brokerage accounts
  - Savings and checking

Remember, retirement accounts and life insurance and annuities have “built-in” beneficiaries, so they don’t go in your trust.

# Retirement planning

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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

# Retirement planning – retirement income resources

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Social Security

Employer retirement plans

Other savings

- Spouse/partner retirement plans
- Plans from former employers
- IRAs
- Regular investment accounts
- Inheritance?



# 2024 annual contribution limits

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## IRA/Roth IRA

\* \$7,000, over 50 = \$8,000

## 401k/403b/457 plan limits

\* \$23,000, 50+ yrs old + \$7,500 = total \$30,500

## Solo 401k

\* \$23,000 employee + \$7,500 50 and older

\* Total combined employee and employer = \$69,000

# The power of compounding

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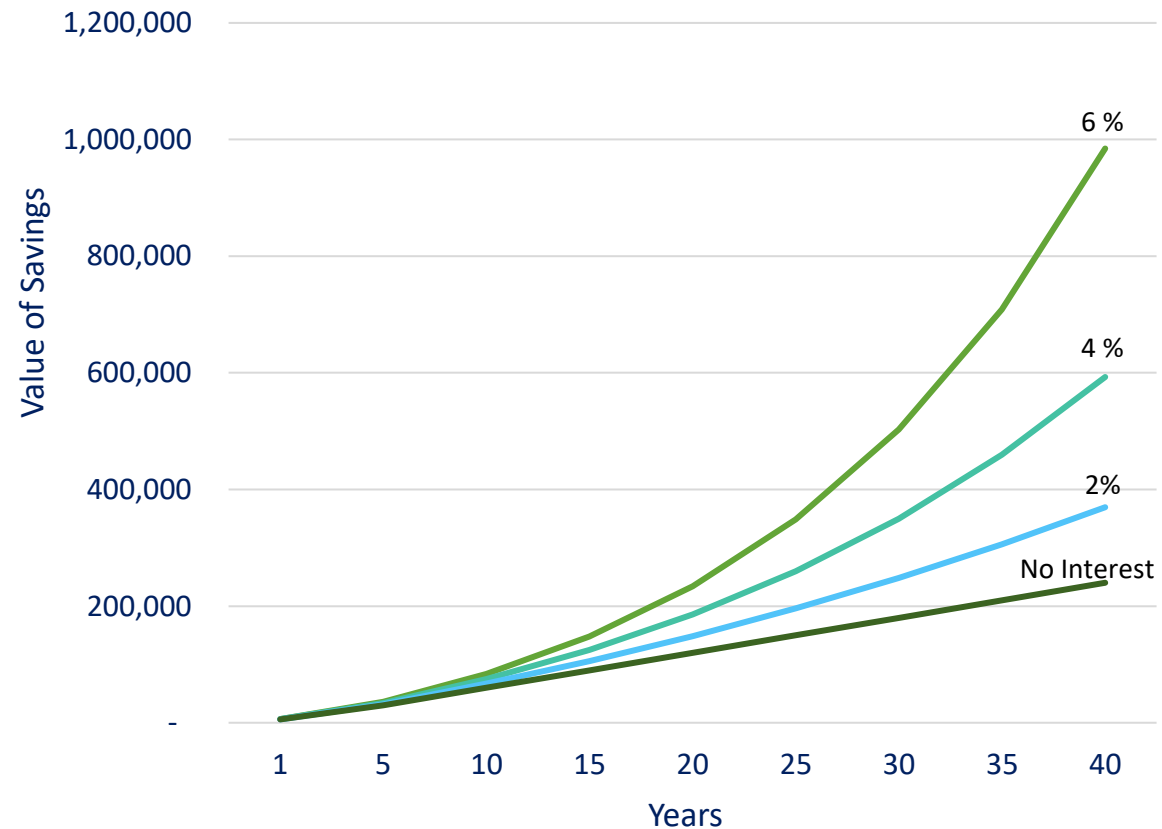
# Time is on your side

.....If you start early

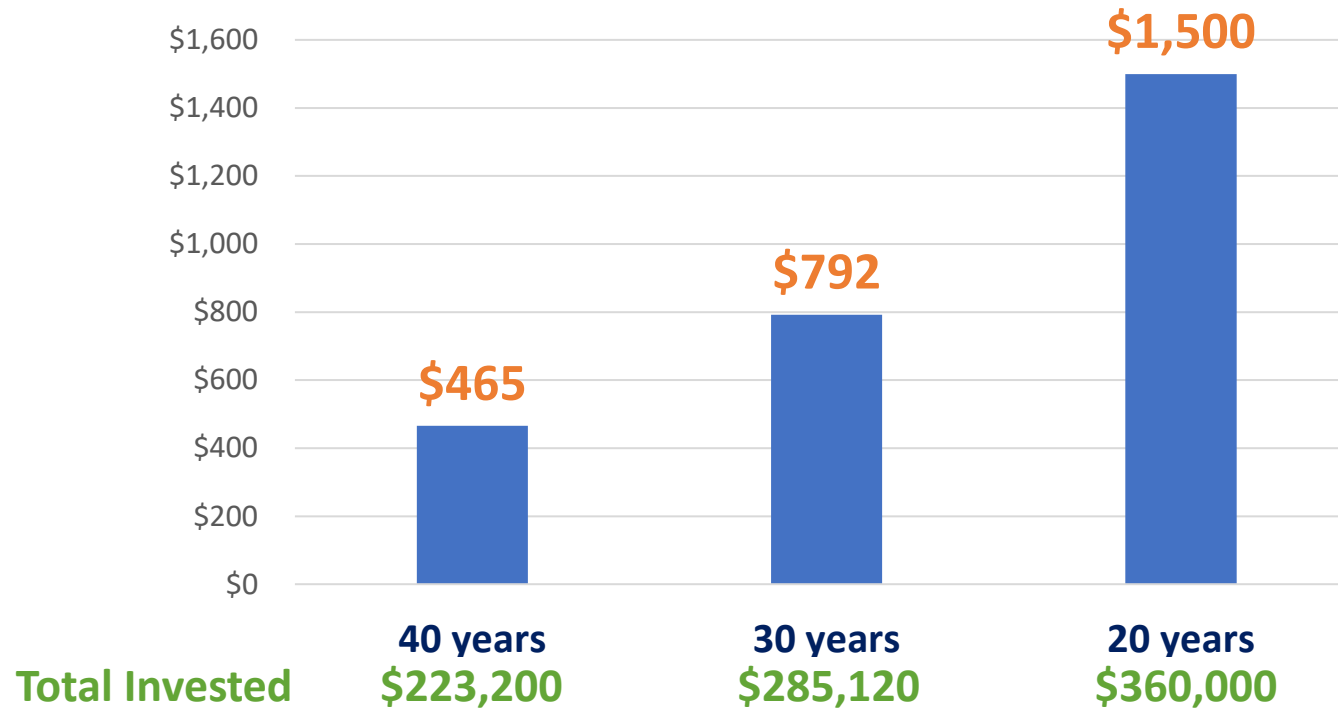
## The Compound Interest Advantage

### Saving and Interest Example:

- Save \$500/month over 40 years
- Compound interest at
  - 2 %
  - 4 %
  - 6 %



# Monthly savings needed prior to retirement to accumulate \$550,000 (assuming 4% return)



# 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

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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 2024, based on a typical retiree who has paid into the Social Security system over his or her entire career.

Age 62	\$2,710
At FRA	\$3,822
Age 70	\$4,873

# 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:

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

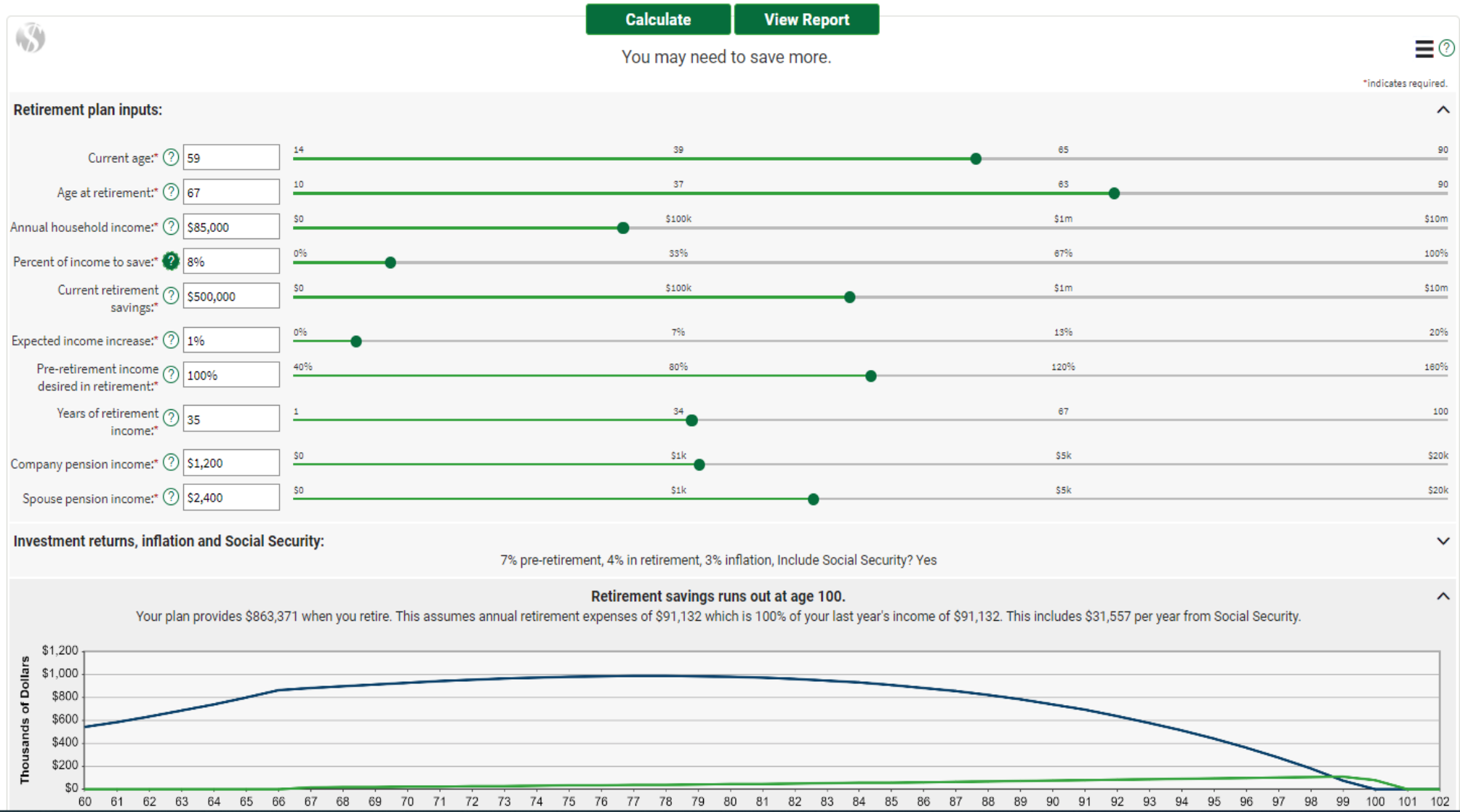
Hello 2023! Are your calculators ready? The best, most up to date, and easiest to use financial calculators - Anywhere.

- ✓ Updated for **2023 rules, regulations and content**
- ✓ All calculators: **ADA Compliant**
- ✓ Calculate a **retirement plan**
- ✓ Answer a **complex loan question**
- ✓ Calculate your **taxes!**

# Retirement Pension Planner Calculator

Get a Retirement Pension Planner Calculator branded for your website! Colorful, interactive, simply **The Best Financial Calculators!**

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. If your spouse in your plan increases your Social Security benefits up to, but not over, the maximum.

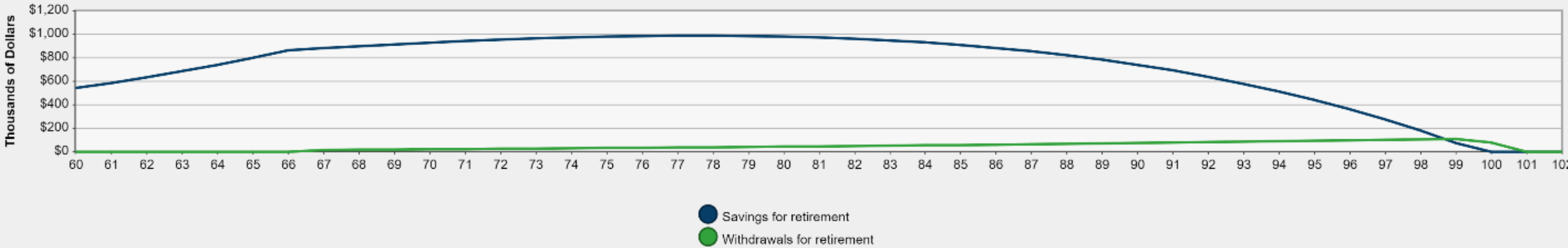


Investment returns, inflation and Social Security:

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

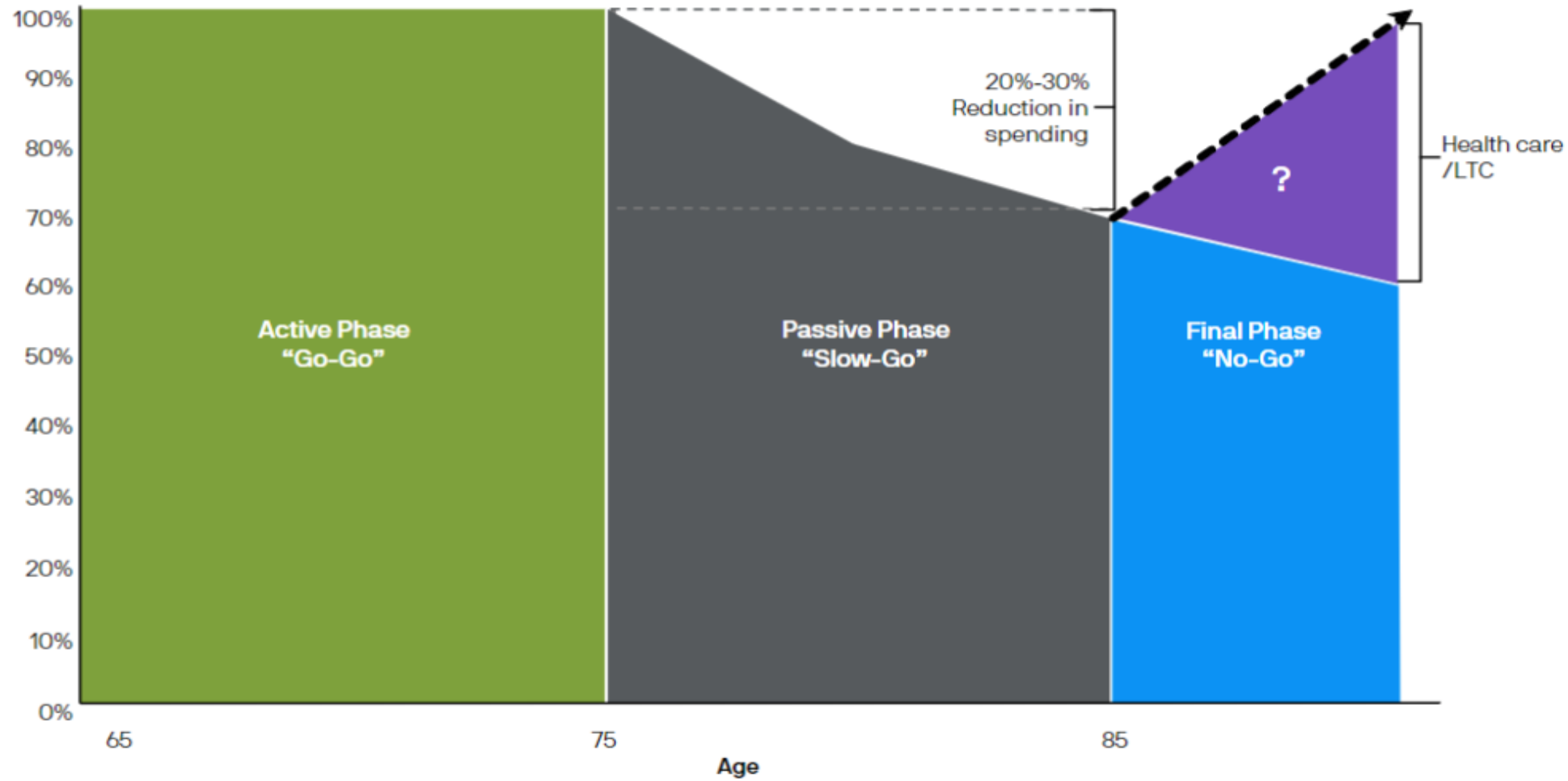
**Retirement savings runs out at age 100.**

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

Percentage of pre-retirement spending



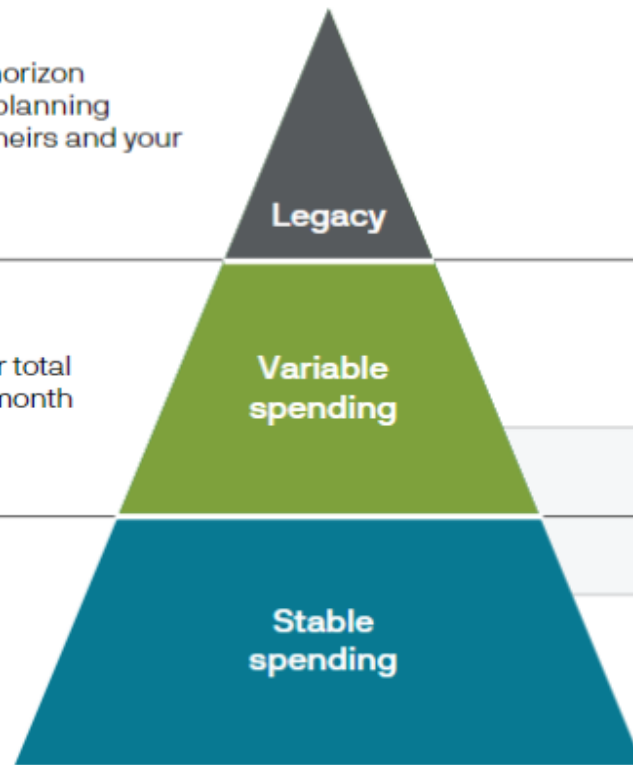
Source: The Prosperous Retirement: Guide to the New Reality, Michael K. Stein, CFP, 1998. pp. 16-18.

## 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.

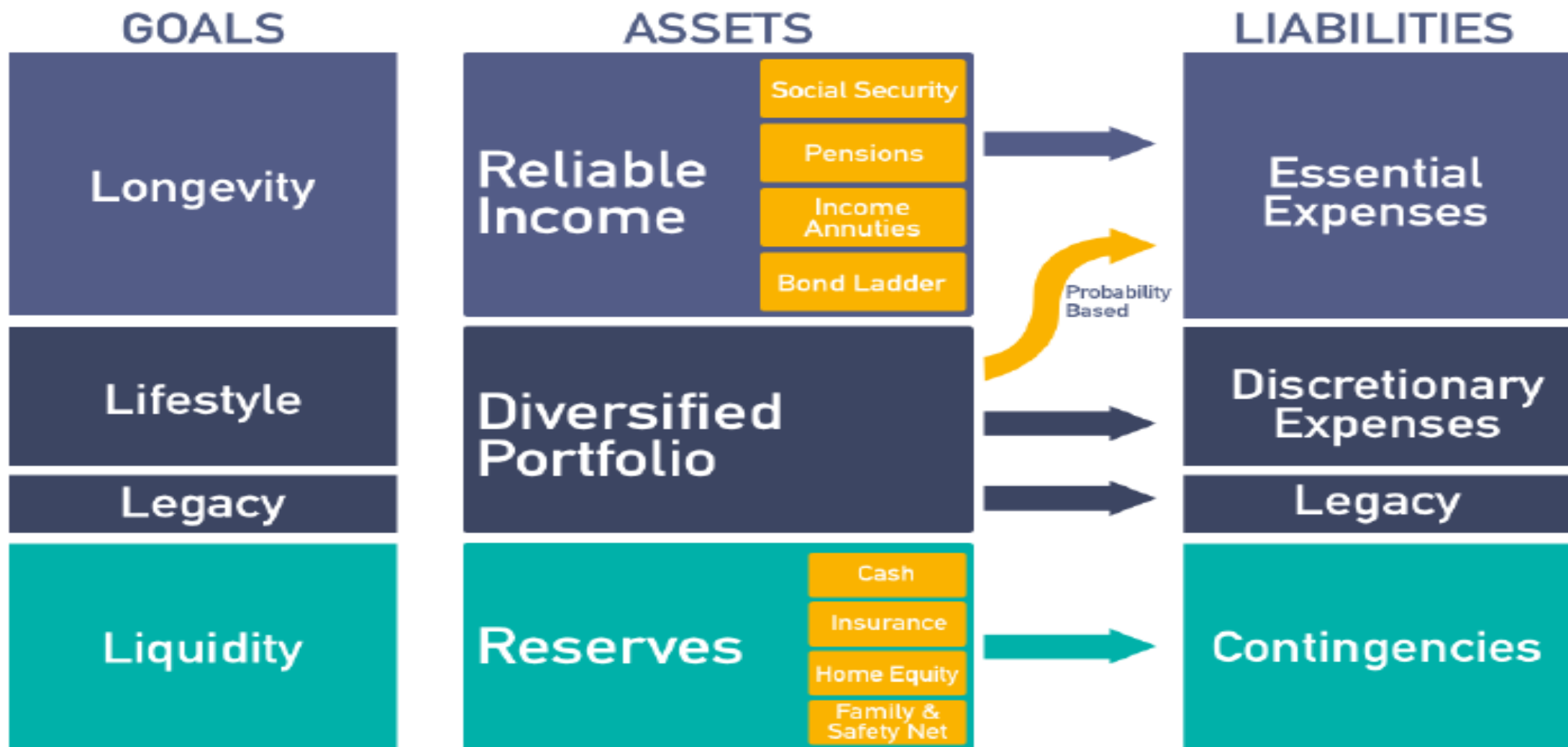
For illustrative purposes only. Fixed income is subject to interest rate risk. Fixed income prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. 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.

# Retirement Optimization Plan

 Retirement Researcher



# Qualified Charitable Distributions (QCDs)

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\$100,000 limit to be indexed for inflation (\$105,000 for 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

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## Overview

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



# Financial planners

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## Credentials

- Registered investment advisors
- Certified financial planner (CFP)
- Chartered Financial Consultant (ChFC)
- Chartered Financial Analyst (CFA)

## Experience

## Rapport/trust

# 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

# Resources

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[Dinkytown.net](http://Dinkytown.net) – online calculators

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

[Retirementresearcher.com](http://Retirementresearcher.com), and [Retire with Style](#) podcast, Wade Pfau, PhD.