Financial Planning Basics

An Overview of the Financial Planning Process

The Ground to Cover

- Setting goals
- Budgeting
- Emergency fund
- Insurance
- Using credit
- Investing
- Tax planning
- Saving for college
- Retirement planning
- Estate planning

Setting Your Goals

How SMART Are Your Goals?

- **S**pecific
- **M**easurable
- **A**ttainable
- **R**elevant
- **T**imely

Write down and prioritize your goals.

Budgeting

Income

1. Paycheck
2. Rental income
3. Government benefits
4. Interest
5. Investment income

− Expenses

1. Fixed expenses
2. Discretionary expenses

= Surplus

An Emergency Fund

An emergency fund is the foundation for any successful financial plan.

Where you keep your emergency fund is important

Risk Management with Insurance

Common types of insurance that help protect you and your assets from different risks:

- Health insurance
- Auto insurance
- Life insurance
- Property insurance
- Liability insurance
- Disability insurance
- Long-term care insurance

Using Credit

- The three Cs of credit
  - Capacity
  - Character
  - Collateral
- How creditors determine your creditworthiness
  - Credit application
  - Credit report
  - Credit score

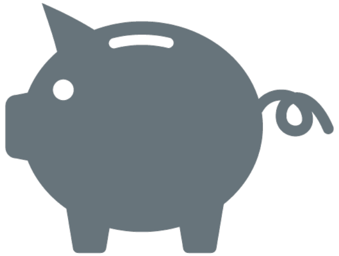
"Remember that credit is money"
Benjamin Franklin

Debt

- Using credit creates debt
- Types of debt
  - Secured
  - Unsecured
- Important considerations
  - Amount
  - Term
  - Rate

Investing

Speculating?



Saving?

Investing--A carefully planned and prepared approach to managing money, with the goal of accumulating the funds you need

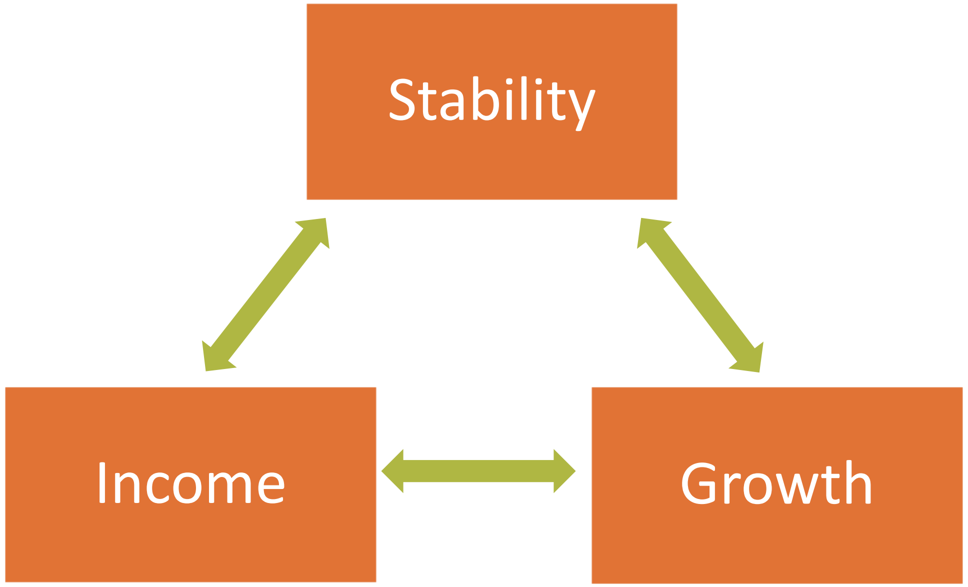
Risk Tolerance

- Understand risk-reward tradeoff
- Personal tolerance for risk
- Ability of investment plan to deal with potential loss

Growth, Income, and Stability

- Growth: Increase in market value
- Income: Payments of interest or dividends
- Stability: Protection of original investment

Increased emphasis on one area may reduce emphasis on others



Income Tax Considerations

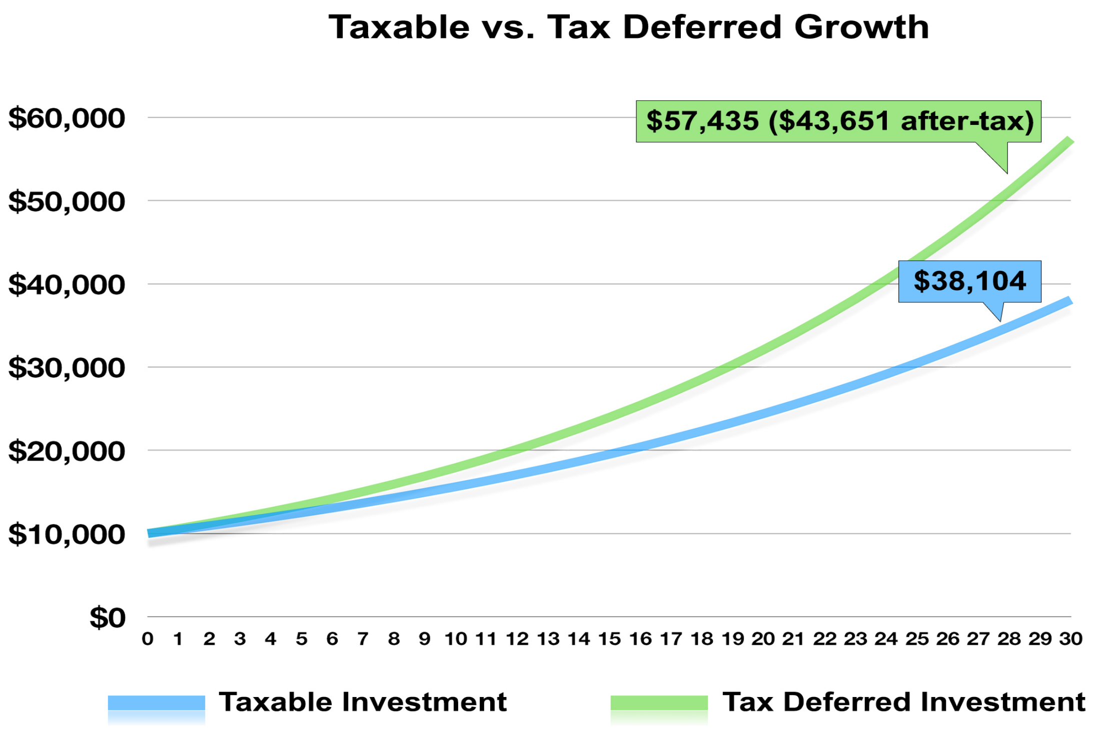
Pretax Dollars

- Deductions are made from your paycheck before taxes are calculated
- The result can be lower out-of-pocket costs
- Some examples:
  - Health or dependent care
  - Transportation costs
  - Retirement plan contributions (e.g., 401(k))

Tax-Deferred Growth

- No taxes are due until funds are withdrawn from the account
- In certain cases, qualified distributions are tax free
- Some examples:
  - 529 college savings and prepaid tuition plans
  - Retirement plans--traditional and Roth IRAs
- Penalty tax applies in some situations (early withdrawals, nonqualified distributions)

The Value of Tax Deferral



- $10,000 invested in Year 1
- 6% annual growth rate
- Tax rate of 24%
- Taxes paid with account assets

This hypothetical example is for illustrative purposes only, and its results are not representative of any specific investment or mix of investments. Actual results will vary. The taxable account balance assumes that earnings are taxed as ordinary income and does not reflect possible lower maximum tax rates on capital gains and dividends which would make the taxable investment return more favorable thereby reducing the difference in performance between the accounts shown. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison. This illustration assumes a fixed annual rate of return; the rate of return on your actual investment portfolio will be different and will vary over time, according to actual market performance. This is particularly true for long-term investments. It is important to note that investments offering the potential for higher rates of return also involve a higher degree of risk to principal.

Saving for College

529 plans

College savings plans

- Individual account
- Pre-established portfolios
- Returns not guaranteed
- Funds can be used towards any accredited college or graduate program, certified apprenticeship program, student loan repayment, and K-12 tuition

Prepaid tuition plans

- Prepay tuition today
- Return guaranteed (in form of tuition coverage)
- Limited to your state's plan
- In-state public colleges

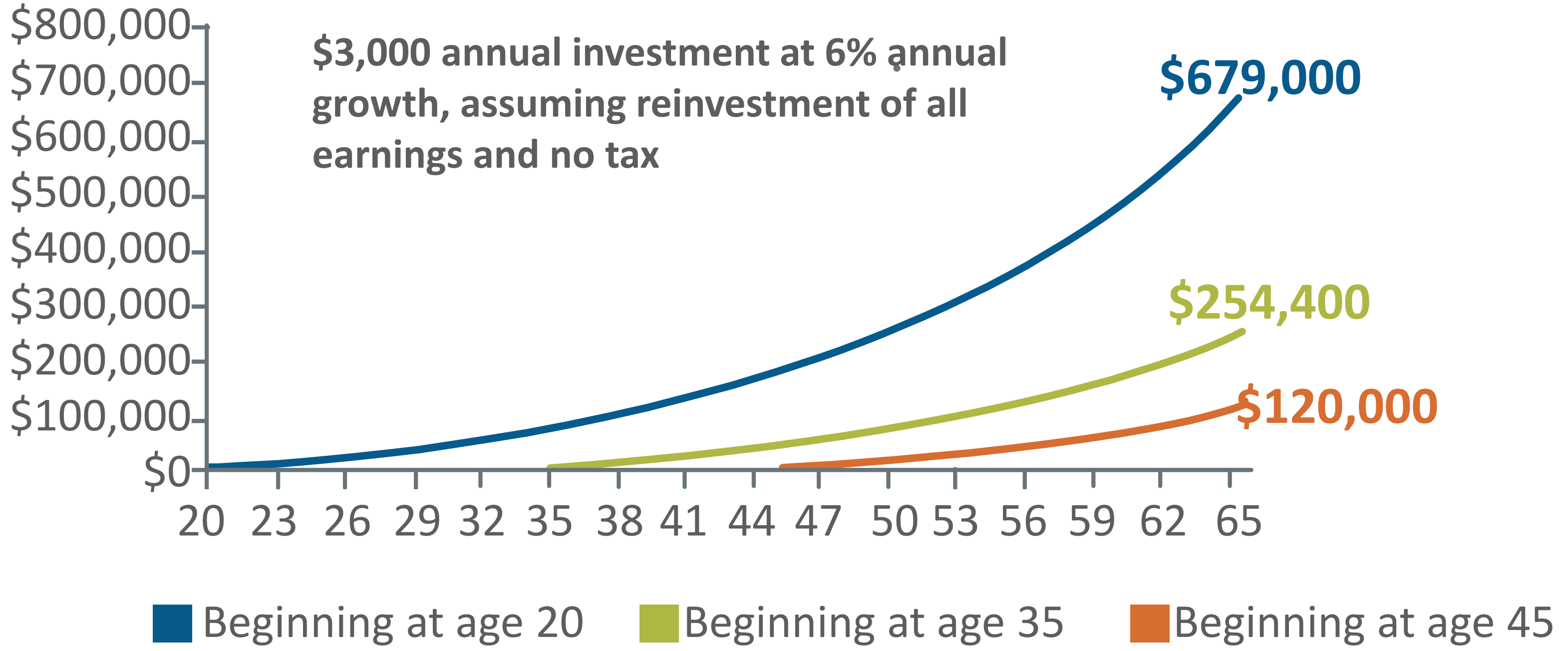
Investors should carefully consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. Specific information is available in each plan's official statement. There is the risk that 529 plan investments may lose money or not perform well enough to cover costs as anticipated. Also consider whether your state offers any 529 plan state tax benefits and whether they are contingent on joining your own state's 529 plan. Other state benefits may include financial aid, scholarship funds, and protection from creditors.

Saving for College: 529 Plans

- Tax-deferred growth and potential tax-free earnings
- Withdrawals not used for qualified education expenses subject to income tax and a penalty
- Fees and expenses with each type of plan

Retirement: Start Now

- Don't put off planning and investing for retirement
- The sooner you start, the longer your investments have to grow
- Playing "catch-up" later can be difficult and expensive



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Retirement: Basic Considerations

What kind of retirement do you want?

- Financial independence
- Freedom to travel, pursue hobbies
- Ability to live where you want (e.g., in current home, vacation home)
- Opportunity to provide financially for children or grandchildren

When do you want to retire?

- The earlier you retire, the shorter the period of time you have to accumulate funds and the longer those dollars will need to last
- Social Security isn’t available until age 62
- Medicare eligibility begins at age 65

How long will retirement last?

- Average life expectancy is likely to continue to increase
- Retirement may last 25 years or more

Retirement: Tax-Advantaged Savings Vehicles

- Tax deferral can help your money grow
- Take full advantage of 401(k)s and other employer-sponsored retirement plans
- Contribute to a traditional or Roth IRA if you qualify
- 10% additional penalty tax applies for early withdrawals (unless an exception applies)

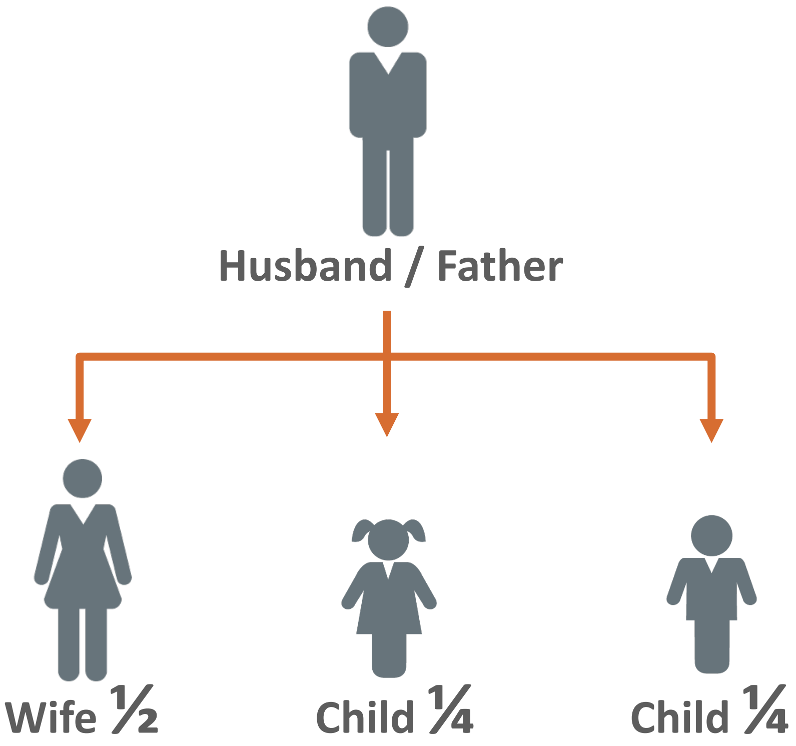
Estate Planning Fundamentals

- Intestacy
- Wills
- Trusts
- Planning for incapacity

Estate Planning: Intestacy

- Intestacy laws vary from state to state
- Typical pattern of distribution divides property between surviving spouse and children
- Your actual wishes are irrelevant
- Many potential problems

A typical intestate distribution pattern looks like this:



Estate Planning: Wills

- A will is the cornerstone of an estate plan
- Directs how your property will be distributed
- Names executor and guardian for minor children

- Can accomplish other estate planning goals (e.g., helping reduce taxes)
- Must be written, signed by you, and witnessed

Estate Planning: Planning for Incapacity

- Incapacity can strike anyone at any time
- Failing to plan means a court would have to appoint a guardian
- Lack of planning increases the burden on your guardian
- Your guardian’s decisions might not be what you would want

Thank You

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