

INTRODUCTION TO FINANCIAL PLANNING

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Introduction



Introduction

1. Set Financial Goals
2. Budgeting and Cash Flow
3. Build an Emergency Fund
4. Manage Your Debt
5. Plan for Retirement
6. Manage Your Risk
7. Tax Planning
8. Estate Planning
9. College Planning
10. Financial Plan Review



Introduction

A Financial Plan Helps You:

- Identify, organize, and prioritize your financial goals.
- Outlines steps towards achieving goals.
- Shows if you are on track to meet your goals.
- May include the following: consolidating debt, opening bank or brokerage accounts, establishing a savings regime and building an investment plan.

Set Financial Goals

Set Financial Goals

- A financial plan is guided by your financial goals.
- What can your money do for you to meet goals?
- A goal-oriented approach makes saving feel intentional.



Set Financial Goals

- Make your goals inspirational.
- What do I want my life to look like in five, ten, or twenty years?
- Do I want to own a car? A house? Or be debt-free?
- Is a spouse or children in the picture?
- How do I imagine my life in retirement?



Set Financial Goals

How to Develop a Plan?

- Organize goals by how soon you will need the money.
- *Short-term goals:* goals within five years.
- *Medium-term goals:* goals within ten years.
- *Long-term goals:* goals over ten years.



Set Financial Goals



- For each goal, specify a dollar amount and target date for the goals.
- Be specific to provide a sense of accomplishment.
- Examples: Buy a car or a house; start a business.

Budgeting and Cash Flow

Budgeting and Cash Flow

How to Develop a Budget:

- Determine your monthly cash flow—how much money comes in and goes out.
- See where your money goes to develop plans:
 - Immediate
 - Medium-term
 - Long-term



Budgeting and Cash Flow

- Identify your expenses.
- Divide your expenses into three buckets:
 - Needs
 - Wants
 - Savings and debt repayment



Budgeting and Cash Flow

50/30/20 Budgeting Principle

- 50% of your take-home pay should go toward needs (housing, utilities, transportation, and other recurring payments),
- 30% toward wants (dining out, clothing, entertainment) and
- 20% toward savings and debt repayment.
- If you are way off on these percentages, it may be time to develop a plan to spend less or save more.

Build an Emergency Fund

Build an Emergency Fund

- Start small and build up—\$500 for small emergencies.
- Then \$1,000 or one month of living expenses.
- Three to six months living expenses is ideal (groceries, housing, transportation, utilities, etc.)



Credit Scores

Build and retain good credit to strengthen your financial options.



Manage Your Debt

Manage Your Debt

Not All Debt is Bad

A mortgage can help build equity—and boost your credit score in the bargain.



Manage Your Debt

Tackle High-Interest Debt First



- Pay down and pay off high-interest debt: credit card balances, payday loans, title loans and rent-to-own payments.
- Interest rates on some of these may be so high that you end up repaying two or three times what you borrowed.

Manage Your Debt

Three Approaches to Paying Off Credit Cards

1. Pay off the highest interest loan first, then the next highest—saves the most money overall.
2. Pay off the smallest balances first, then the next smallest—offers a sense of accomplishment.
3. Consolidate debt into one loan by wrapping several expenses together at a lower interest rate.
 - Bucket different types of spending.

Retirement Planning

Retirement Planning

Retirement Accounts – Why now?

- Many young people put off saving until later.
- Why delaying saving is not a good idea.



Retirement Planning

Retirement Accounts

Monthly amount to save starting at different ages to reach \$1,000,000 by age 65 (assuming 7% annual return).

Age	Amount
20	\$292
25	\$417
30	\$603
35	\$882
40	\$1,318
45	\$2,033
50	\$3,316
55	\$6,031
60	\$14,491

Retirement Planning

Retirement Accounts – Employer Plans 401(k) or 403(b)

- Do you have an employer sponsored retirement plan like a 401(k)?
- Does the employer match a percentage?
- Employer match is free money.
- Start with amount for full match and have a plan to increase.



Retirement Planning

401(k) Contribution Types and Additional Retirement Accounts – Individual Retirement Accounts (IRA)

- Roth IRA – Tax Free (Pre-taxed)
- Traditional IRA – Taxed Deferred (Taxes paid at distribution)
- Limits in 2023: \$6,500
- Limits for over 50 in 2023: \$7,500



Retirement Planning



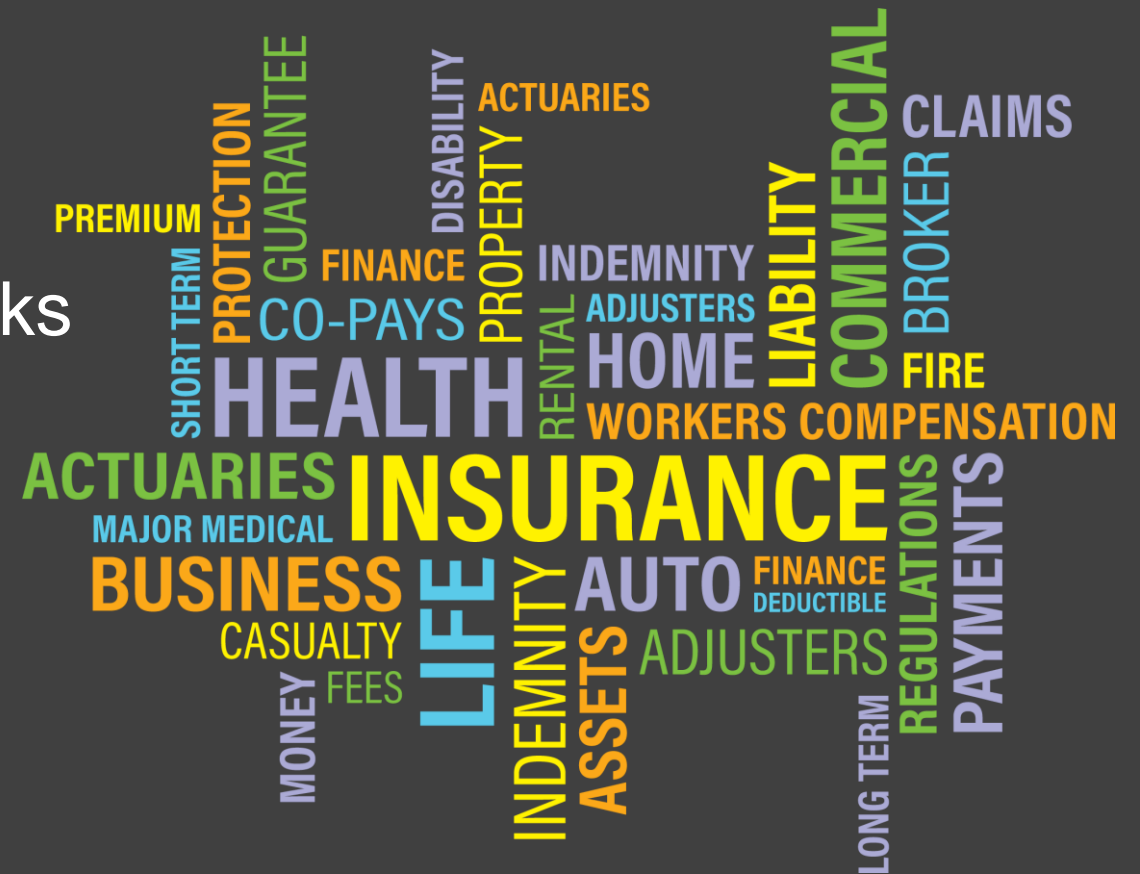
The sooner you start saving in a retirement plan, the better.

Risk Management

Risk Management

Insurance

- Most important part of protecting yourself financially.
- Offset potentially catastrophic risks like serious health issues, accidents and injuries, property damage, and premature death.
- Insurance can seem expensive, but if anything happens to you it is well worth it.



Risk Management

Health Insurance

- Health insurance is a must have!
- If choosing an HDHP—
contribute to HSA if possible.
 - Triple tax advantage
 - Reduces taxable income
 - Money grows tax-free
 - Tax-free if used for spending

Put your premium savings into an HSA to pay for qualified medical expenses.



Traditional Plan
Low or No
Deductible,
Higher Monthly
Premiums



HDHP
High
Deductible,
Lower Monthly
Premiums



**Health
Savings
Account**

Risk Management

Disability Insurance

- Protects you and your family in the event you're unable to work.
- Pregnancy and maternity leave.
- Employer-provided disability insurance typically replaces about 60% of your salary.
- There is a much higher probability someone will experience a disabling event vs. a premature death.



Risk Management

Life Insurance

- Replaces lost income if the breadwinner dies.
- Term vs. permanent life insurance.
- Rule of thumb is 10x your annual income in coverage — but this varies depending on your own unique circumstances.



Risk Management

Auto and Homeowners'/Renters' Insurance

- Protects your largest assets.
- Includes liability coverage in the event you are sued.

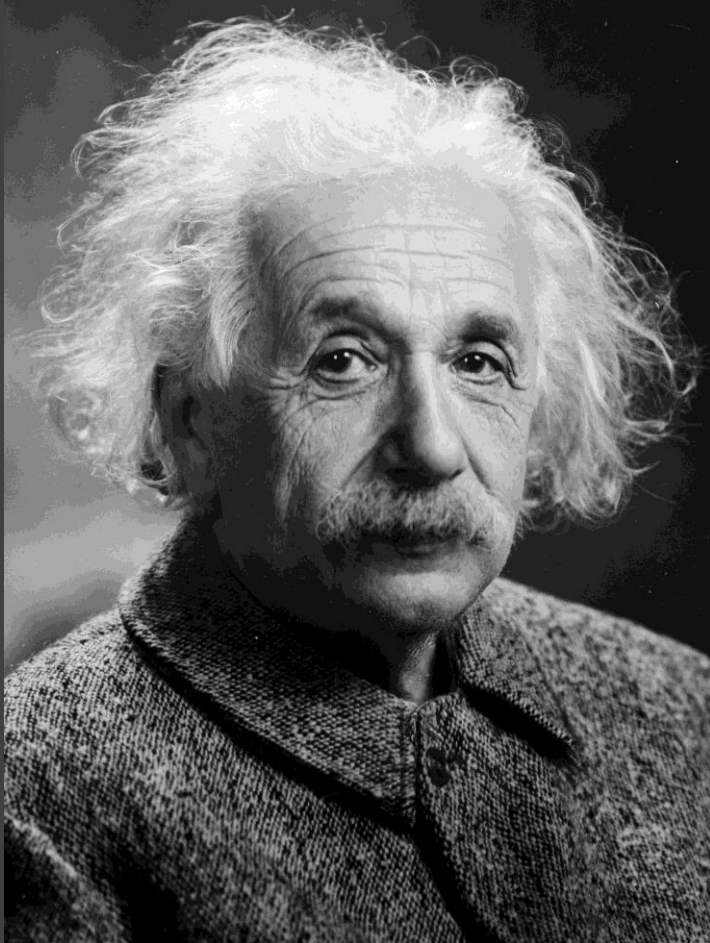
Adding Umbrella Liability

- Aim to have enough coverage that covers your net worth.
- Consider bundling these policies with the same insurance company for discounted rates.



Tax Planning

Tax Planning

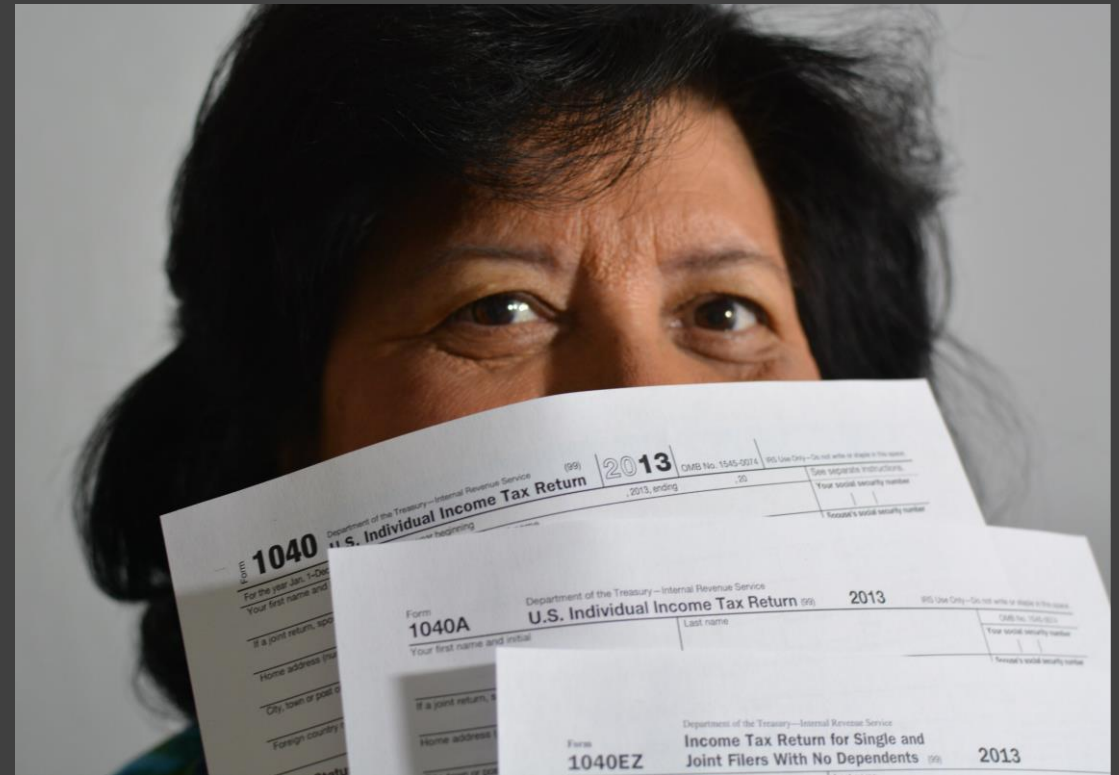


“The hardest thing in the world to understand is the income tax.”

– Albert Einstein

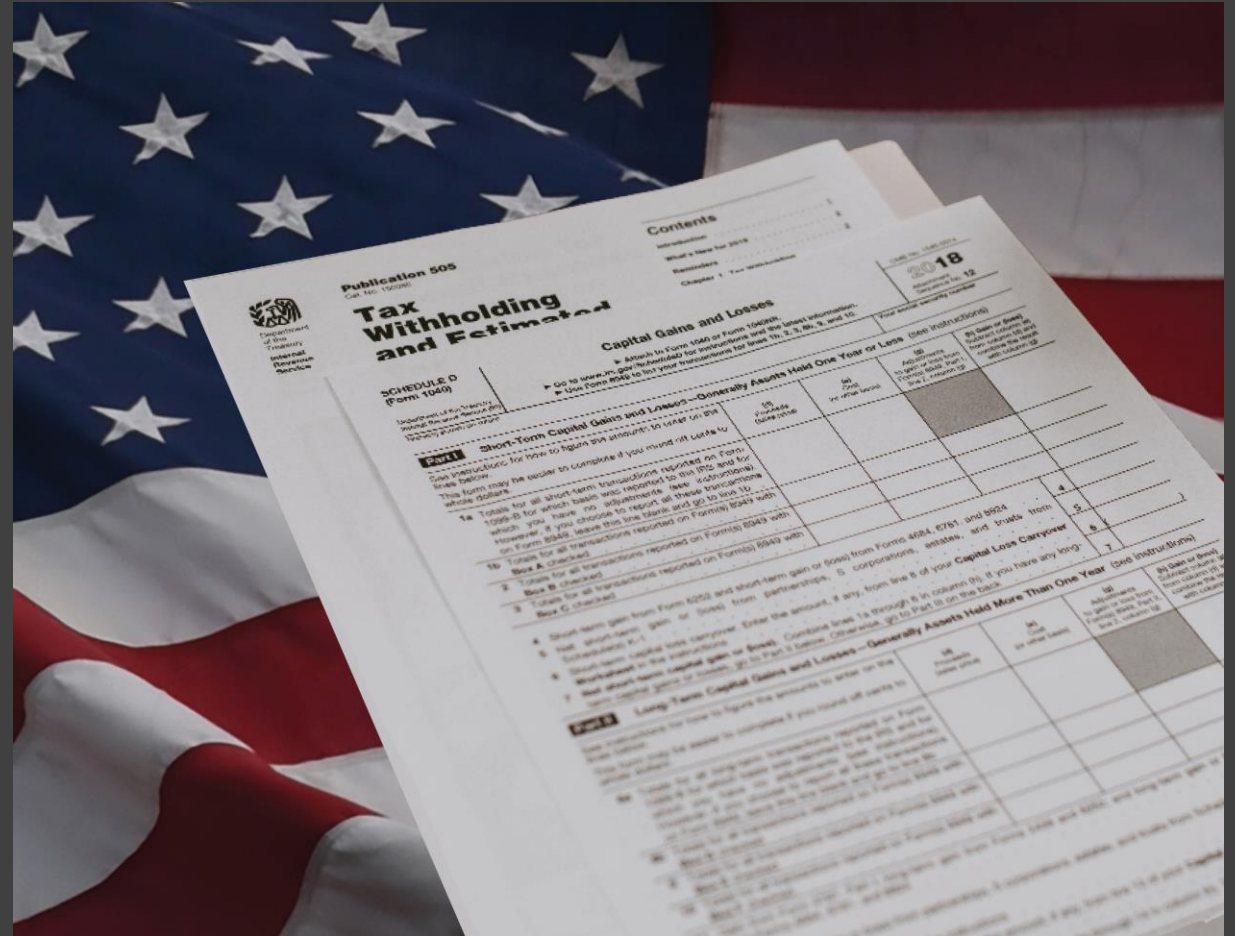
Tax Planning

- An overly large refund may mean you are paying in too much throughout the year.
- Avoid underpayment penalties by making quarterly estimated tax payments.
- Review W-4 withholdings to control tax payments and minimize the amount you owe or are refunded come tax filing time.



Tax Planning

- The U.S. tax code currently has over 215 tax breaks available to taxpayers.
- Consider hiring a CPA or paying for TurboTax to ensure you are taking advantage of tax breaks.



Estate Planning

Estate Planning

- Look out for future needs for you and your family.
- A will can ensure distribution of assets according to your wishes.
- Name a guardian(s) for minor children should you and your spouse pass away while your kids are still young.
- Establish Powers of Attorney should you be incapacitated.



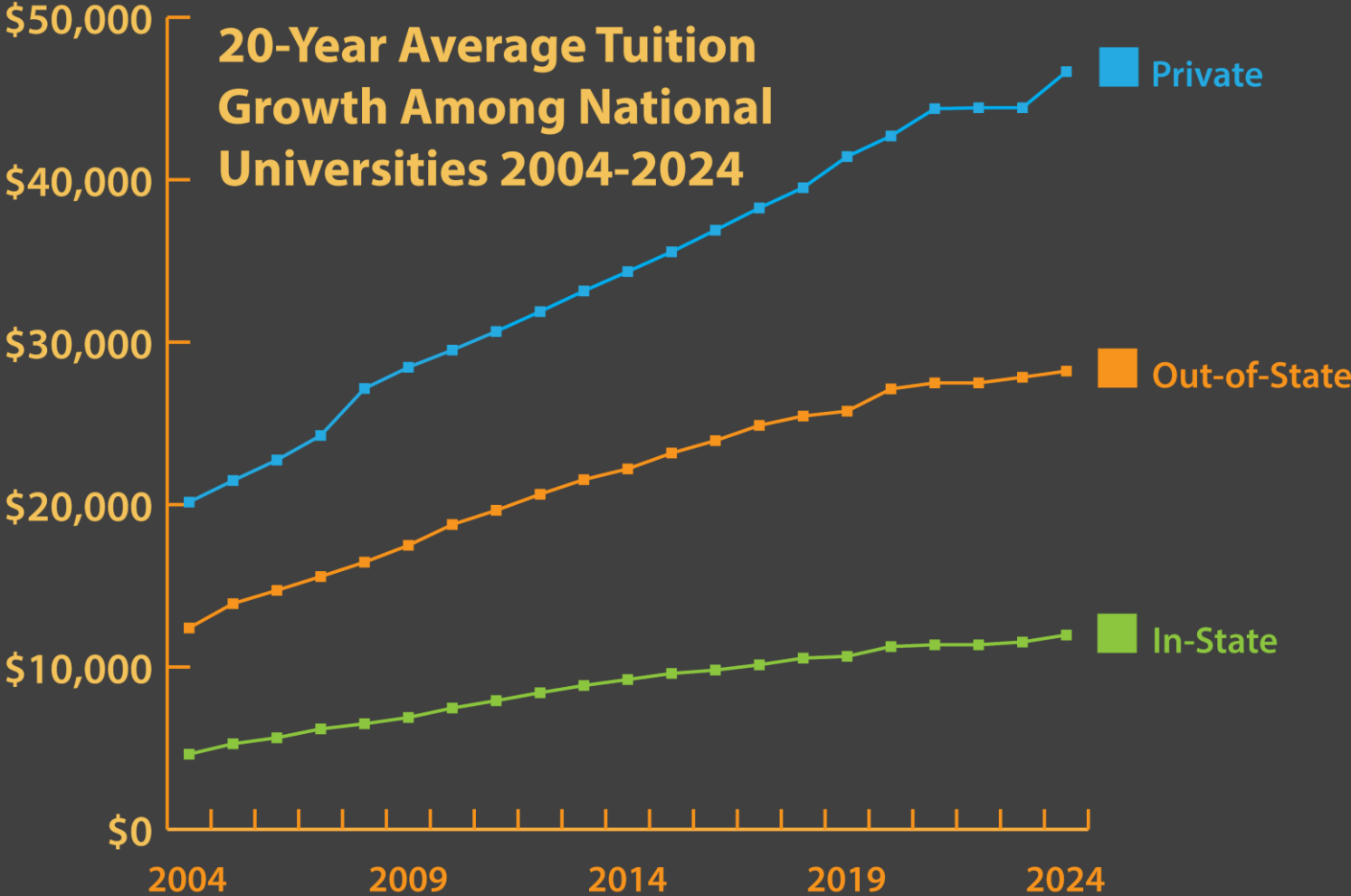
Estate Planning

- Make sure beneficiary designations are updated on your retirement accounts and life insurance policies.
- Consider a trust as you start to accumulate wealth.
- Share your estate plan with your heirs while you are still living.



College Planning

College Planning

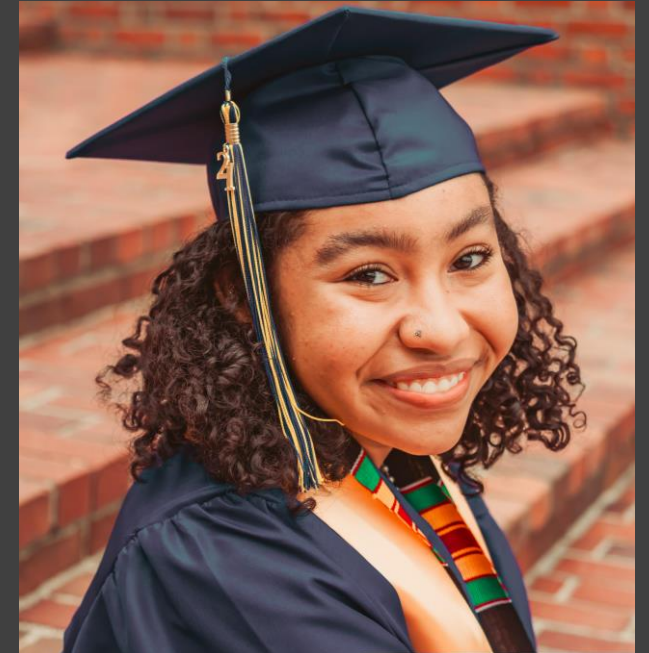


<https://www.usnews.com/education/best-colleges/paying-for-college/articles/see-20-years-of-tuition-growth-at-national-universities>

College Planning

529 Plan

- Tax-efficient savings vehicle – potential state income tax deduction on contributions and tax-free growth.
- Child's financial aid eligibility is minimally affected because asset belongs to account holder.
- Tax consequences if money is withdrawn and not used for education expenses.
- Beginning in 2024, unused 529 funds may be transferred to Roth IRA in certain circumstances.
- Discuss additional rules with a financial advisor to learn specifics.



Financial Plan Review

Financial Plan Review

Look at your financial plan at least one time per year or at big life change event such as:

- Significant change in income
- Change in financial goals
- Receiving inheritance
- Change in family dynamics like having a baby or adopting, getting married, divorced or losing a spouse/partner
- Job changes
- Selling or buying a home
- Unexpected debt
- Moving to a different state

Summary

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Q & A



**Stay Tuned
for Q & A**

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Q & A



Q & A

Thank You



Thank You!

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