



## RISK MANAGEMENT

- Properly securing your future involves protecting income for you and your family
- Your assets should be protected against losses you cannot afford to personally absorb
- Improper risk management will destroy the integrity of even the greatest plans
- All sound businesses and institutions employ risk management processes
- Risk management may not lessen the pain of a severe loss; but, it can lessen the severity of the consequences
- Because you cannot fathom your death or disability does not mean it cannot happen

## CASH FLOW & NET WORTH

- Understanding the flow of income and expenses is the first step in controlling planning for your future
- You cannot adequately plan for tax, education, retirement or your estate without an accurate cash flow
- Visualizing your cash flow enables you to make decisions regarding spending that you normally would not make
- Understanding the impact of debt on cash flow enables you to control and manage debt better
- Expenses inflate at different rates over time
- Your net worth is the ultimate scorecard—It acts as a check and balance of assets versus liabilities
- Medical expenses inflate more than household expenses—Travel inflates more than other discretionary expenses—All future projection of need must realize this

## 5 CRITICAL POINTS REGARDING RETIREMENT

- It's important to truly get a handle on your desired lifestyle

- Trying to ratchet up aggressiveness on your portfolio to make up for insufficient assets is never a good idea
- Most people over-estimate risk regarding investment planning and under-estimate the impact of inflation and taxation
- Choosing when to retire, when to take distributions, pensions, and Social Security will usually have a greater impact on success than portfolio return
- Your relationship with money rarely changes in retirement—People who save, save—People who travel, travel—People who give, give—People who spend, spend.... You know yourself
- After the initial excitement of retirement dims, what will you do with yourself?

### TAX PLANNING

- Tax avoidance is almost always a good idea—Tax evasion never is!
- If you are planning to be in a lower tax bracket in retirement, it may not happen
- In retirement, taxable income can affect social Security and Medicare premiums
- You need to plan for alternate sources of income in retirement other than tax-deferred IRAs—Alternate income sources would be Roth IRAs; cash value life insurance and non-qualified assets—Utilizing tax appropriate investment vehicles will enable us to manage your tax situation together
- Each year, you should look for gain/loss harvesting to offset taxable income—Most income is taxable but some income is less taxable—Taxes are incremental and progressive—Controlling sources of income helps manage this process
- The taxation of Social Security and the cost of Medicare premiums can be greatly influenced by taxable income—Deductions can be reduced by taxable income and AMT can increase taxes dramatically
- Tax preparation is historical in nature, tax planning is future-based

### THINGS YOU MUST KNOW ABOUT CASH RESERVES

- They provide resources in the event of an emergency
- They provide capital for unexpected opportunities
- They help stabilize a portfolio in the event of a downturn or during periods of volatility
- They act as a source of supplemental income in periods of short term income need such as retirement, disability or death
- Too much can seriously derail return on a portfolio and too little can have a similar effect

- Having three to six months' worth of expenses in cash reserve is a general parameter
- Having 5-30% of your assets in cash is another general parameter and is also dependent upon your risk tolerance, needs for income, and underlying economic conditions
- Your cash reserves can also be supplemented initially in the form of a home equity or line of credit if available

## 5 THINGS YOU SHOULD KNOW ABOUT DEBT

- Healthy debt is below 38% of income for both personal and mortgage debt combined—Mortgage debt alone should be below 33% of your total income
- In addition, if you cannot pay yourself (in the form of savings) 20% of your gross income on an annual basis, your expenses and, in particular your debt, is too high—Committed expenses, including debt and savings (of 20%), need to be accounted for before you allocate money toward discretionary expenditures
- Charge cards should only be used as a convenience and should be paid off each month—If you build adequate cash reserves first, this should never be a problem
- Debt reduces your ability, in the future, to take advantage of opportunities as they arise—In addition, debt restricts mobility; it lowers your available resources to deal with adverse conditions; such as, medical needs, job loss or a disability for either you or a family member
- Mortgage debt used judiciously can allow for growth in other assets if your after-tax borrowing rate is less than your average rate of return on your investments

## CREATING A SOUND ESTATE PLAN

**The size of your estate dictates the complexity of your personal issues and the various tools for implementation. There are eight fundamental documents that everyone should know and understand**

1. A Will with clear executor directives
2. A power of attorney for one's spouse and a limited durable power of attorney for the executor
3. A personal letter of instruction
4. A personal property codicil
5. A health care proxy
6. A clearly articulated Guardian/Custodian strategy
7. An initial discussion for charitable bequests
8. A Living Will

*Trusts are not discussed as they pertain to only certain specific client situations*

### **The process that will lead to better decisions begins:**

1. Understand your financial needs now and in the future
2. By reviewing the "Power of Ownership"
  - a. Sole proprietor
  - b. Tenancy in Common
  - c. Tenancy by Entireties
  - d. Joint Tenancy with Rights of Survivorship (7 Ills of Joint Ownership)
  - e. Community Property
3. By reviewing the advantages and disadvantages of the impacts of contractual laws
  - a. Qualified contracts like your 401k, and IRA
  - b. Life Insurance contracts
  - c. Annuity contracts
  - d. Partnerships/and other ownership Agreements
  - e. Small business Agreements
4. By reviewing the importance and concerns related to the "Probate Process"
  - a. Probate is a public process, usually increases one's cost and takes longer to settle
  - b. Probate does help to determine the true value and owner of the property
  - c. Probate helps to settle all potential conflicts and disagreements
  - d. Probate can be avoided by using ownership and relative simple planning steps
5. By discussing the various ways in which an estate size is reduced through unforeseen costs, expenses and various tax obligations
6. By reviewing who might challenge the transfer of one's estate and what steps to consider that would address the circumstances
7. Discuss and understand any special considerations that need to be addressed
8. Decide whether and when gifting is advisable

### **Five Goals of our Work Together**

1. Keep more of what you have earned and accumulated in your lifetime
2. Transfer our property to those we care the most about in our lifetime
3. Control more of what we can't keep for ourselves
4. Assure the timelines of the transfers from the estate
5. Manage the overall costs of the settlement process