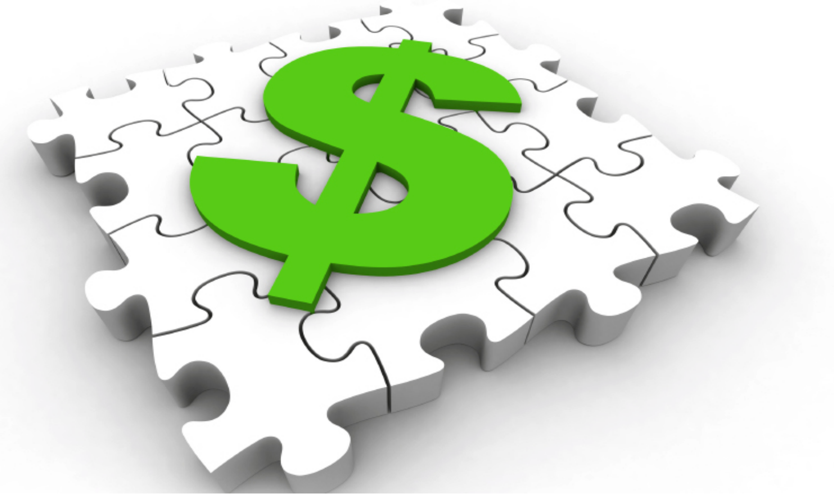
Life Guide

Managing Your Financial Life



People don't plan to fail… they fail to plan.

Taking control of your finances and your financial future can help you reach your desired destinations in life. You want to control your finances, not let them control you.

You can do this by creating a strong financial foundation upon which you then build in order to work toward your long-term goals.

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Financial Pyramid

Starting with the foundation, a financial pyramid provides a picture of the building blocks upon which you then build in order to pursue your long-term goals:

Managing Your Money:

- Retirement planning
- Estate planning

Growing Your Money:

- Use an investment strategy consistent with goals and risk tolerance
- Take full advantage of tax-advantaged retirement plans
- Establish a plan to pay for children's higher education
- Periodically review investment allocations / performance

Lifestyle:

- Balance new car purchases with amount of debt assumed
- Purchase a home consistent with income level/personal needs
- Use consumer credit with caution; live within means

Financial Foundation:

- Budget
- Savings plan
- Debt reduction
- Appropriate insurance
- Emergency fund
- Will

Regardless of where you are on your own personal financial pyramid, the information that follows is intended to assist you in taking better control of your finances and help in securing your financial future.

- ☐ **Keep track of expenses for at least a month and develop a budget.** A basic way of budgeting is to establish and stick with a formula, such as 20% of income for saving/investing, 20% of income for discretionary expenses and 60% of income for non-discretionary living expenses. A budget form is available in Appendix A.

- ☐ **Pay off student loans and other consumer debt.**

- ☐ **Establish an emergency fund equal to three to six months of expenses.** This "cash on hand" needs to be readily available in the event of an emergency. As a result, your cash reserve should be kept in a savings account, money market fund or any other type of account that gives you easy, penalty-free access to the money.

- ☐ **Begin a regular savings program** by building savings into your budget.

- ☐ **Consider saving money automatically** by having a predetermined amount deducted from your paycheck or your checking account.

- ☐ Employers offer a variety of employee benefits, such as 401(k) plan matching contributions, flexible spending accounts, group insurance and medical and dental insurance. **Learn what benefits are available to you and take full advantage of them.**

- ☐ **If you have dependents**, regardless of how much you own, you and your spouse need a will in order to distribute your estate according to your wishes and name a guardian for minor children. Without a will, the laws of the state where you live will determine who gets what at your death and the court will name a guardian for your minor children. Even if you don't have minor children, do your loved ones a favor…draft a will and make your wishes known.

Adequate insurance coverage protects dependents, income and assets from financial loss. Appropriate insurance coverage depends on your personal and family situation, as well as your financial needs and objectives:

- ☐ **Property and casualty insurance** indemnifies for losses to homes and cars, as well as provides liability protection.

- ☐ **Life insurance** protects dependents from loss of income in the event of a breadwinner's death.

- ☐ **Disability income insurance** replaces income lost in the event of accident or illness.

- ☐ **Health insurance** helps to cover the costs of medical care.

- ☐ **Long-term care insurance** helps to pay the costs of extended nursing home or assisted living care.

- ☐ **Periodically review your insurance program**, making adjustments as needed.

- ☐ **Buying a home may be the most expensive purchase you ever make.** Shop around for loans and be certain you understand the terms of the loan, as well as the impact that fluctuations in interest rates may have on your mortgage payments. Take care that the cost of your home is within your income comfort level.

- ☐ **If home mortgage interest rates decline,** evaluate if it is to your benefit to refinance your mortgage.

- ☐ At some point, you may want to consider the **purchase of a vacation or retirement home.**

- ☐ **As you enter your fifties, consider paying off your home mortgage.** Eliminating your mortgage payment can free up additional funds for retirement.

- ☐ **Consider setting up a home equity line of credit to use in large emergencies,** since the interest rates are lower than credit card rates and the interest is tax deductible.

- ☐ The purchase of a new car is exciting. **Do not, however, be tempted to purchase a new car that you cannot easily afford.**

- ☐ **Credit card debt can be the number one obstacle to getting ahead financially.** In general, credit cards are the most expensive way to borrow money. Unless it can't be avoided in the event of an emergency, pay off credit card debt each month. Alternatively, avoid credit cards altogether and use a debit card.

- ☐ **Periodically check your credit history.** The Fair Credit Reporting Act (FCRA) requires each of the nationwide consumer reporting companies – Equifax, Experian, and TransUnion – to provide you with a free copy of your credit report, at your request, once every 12 months. You can order your free credit reports at www.annualcreditreport.com. You may order your reports from each of the three nationwide consumer reporting companies at the same time, or you can order your report from each of the companies at different times. The law allows you to order one free copy of your report from each of the nationwide consumer reporting companies every 12 months.

- ☐ **Determine your short-, intermediate- and long-term financial goals and develop a financial plan to meet those goals.** A financial plan provides the specifics of when and how much you will set aside, as well as how those funds will be invested.

- ☐ **Understand the difference between saving and investing.** The focus in saving is on preserving money that you accumulate over time. Money that is saved is typically "stored" in low-risk vehicles, such as bank savings accounts, CDs and money market accounts, which offer relatively low interest rates in return for lower risk to principal. Investing, on the other hand, emphasizes accumulation through growth. Investment vehicles, such as stocks, bonds and mutual funds, involve a greater risk to principal than do savings vehicles, but also offer a higher return potential and may better guard against inflation.

- ☐ While you don't have to become a financial expert, do **develop an understanding of basic financial concepts,** such as risk and reward, risk tolerance, the "magic" of compound growth, diversification and dollar cost averaging.

- ☐ **Understand the various saving and investment vehicles**…the potential risks and rewards, the fees and expenses, the advantages and disadvantages of each.

- ☐ **Decide whether you want to actively manage your investment portfolio or whether you'd prefer to pay an advisor** to recommend specific investments, as well as make market timing and asset reallocation recommendations.

- ☐ **Analyze the amount of income you will need in retirement and what sources will generate that income.** Maximize contributions to tax-deferred retirement plans available to you. Make investment choices consistent with your risk tolerance and investment time frame.

- ☐ **Determine to what degree you want to finance your children's college education.** Learn about tax credits, financial aid and student loans available to assist with paying for college. Consider funding a tax-advantaged education savings plan.

- ☐ **Keep good records on your investments and your house.** When you sell these assets, you will need to know what you paid for them for tax purposes. In the case of your house, keep records of improvements made, as well as the original purchase price.

- ☐ **Periodically review the performance of your financial plan to determine if an asset reallocation is in order.** Be prepared to make adjustments as your needs and circumstances change in the future.

The concept behind **tax diversification** is to manage wealth accumulation in such a way as to create the most tax-efficient cash flow in retirement as possible. This requires understanding the income tax implications of the various ways to save for retirement in order to potentially spread tax exposure among different retirement savings vehicles. At its most basic, tax diversification planning answers the question...**Do I want to pay taxes now or later when I'm retired?** The most widely used sources of retirement income include:

- ☐ **Investment accounts** into which you invest funds on which you've already paid income tax. When you later liquidate investments in these accounts to provide a retirement income, the only tax usually due is capital gains tax paid on any gains realized when the investment is sold. The capital gains tax rates are currently lower than income tax rates.

- ☐ **Tax-deferred qualified retirement accounts** into which you (and/or your employer) make contributions on which no income tax is paid (i.e., pre-tax contributions). Examples include 401(k) plans, governmental plans such as 403(b) plans and IRAs. The funds in these plans grow free of income tax. When you retire, however, and draw funds from these plans to provide a retirement income, distributions from the plans are generally fully subject to income tax as received.

- ☐ **After-tax qualified retirement accounts** into which you make contributions on which you've already paid income tax. Examples include Roth 401(k) plans and Roth IRAs. The funds in these plans grow free of income tax. When you retire and draw funds from these plans to provide a retirement income, distributions from the plans are generally received income tax free.

Why Is Tax Diversification Important?

- ☐ **Tax bracket planning.** Withdrawals can be made from tax-deferred and after-tax retirement accounts in amounts designed to minimize the effective income tax rate paid.

- ☐ **Social Security taxation.** It may be possible to minimize or even eliminate the taxation of Social Security benefits by using some combination of withdrawals from tax-deferred and after-tax retirement accounts.

- ☐ **Medicare Part B premiums.** Higher-income Medicare beneficiaries pay higher premiums for Medicare Part B. You may be able to alleviate this outcome through carefully planning the sources of your retirement income...tax-free or taxable.

- ☐ **Flexibility.** Having both taxable and tax-free sources of retirement income gives you the flexibility to meet your retirement income needs in the most tax-advantageous manner possible.

☐ **Request an estimate of your Social Security retirement benefit** from the Social Security Administration (www.ssa.gov).

☐ **Ask your employer how much pension income you can expect to receive** (if any).

☐ **Understand the various ways you can withdraw money from your retirement plans,** including the potential advantages, disadvantages and income tax consequences of each method.

☐ **As you near retirement age,** you may want to reallocate some portion of your investment portfolio into lower-risk and/or income-producing investment vehicles. In making investment decisions, however, remember the impact that inflation will have on purchasing power. While an all-stock portfolio may not make sense in retirement, some portion of your portfolio allocated to stock investments offers the potential of providing asset growth to offset the erosion of inflation on purchasing power.

☐ **A major fear of many retirees is outliving their retirement income**…consider the purchase of an annuity to provide you with a steady stream of income you cannot outlive. Before selecting an annuity, carefully evaluate contract provisions, income options and fees and expenses.

The rising cost of health care in the United States has become one of the primary risks to a financially-secure retirement. With health care costs expected to continue increasing faster than inflation, the time to begin planning for your future health care needs is before you retire:

☐ **What healthcare benefits, if any, will you receive from your employer after you have retired?**

☐ **Are you familiar with the costs and benefits of Medicare?** Are you aware that Medicare, while it covers many health care costs, has significant limitations? Are you familiar with the various types of insurance that can help pay health and long-term care costs not covered by Medicare?

☐ **Did you know that Medicare will pay for nursing home costs only under very limited conditions?** Consider the purchase of long-term care insurance, which can put you in control and allow you to select the type of facility and setting in which you want to receive long-term care services, if needed. Long-term care insurance also helps protect your personal assets, preserving them for your use or as an inheritance for your family.

- ☐ **Do you have an estate plan?** An estate plan can serve both to protect the assets you've worked a lifetime to accumulate and to assure that your assets are distributed in a manner consistent with your wishes.

- ☐ **The foundation of an estate plan is your will.** Make certain that both you and your spouse have a will and that your wills take best advantage of the marital deduction.

- ☐ **Do you have a living will?** A living will states your preferences regarding the type of medical care you want to receive (or don't want to receive) if you are incapacitated and cannot communicate. You specify the treatment you want to receive or not receive in different scenarios.

- ☐ **Do you have a medical power of attorney?** Also known as a durable power of attorney for health care or a health care proxy, a medical power of attorney names another person, such as your spouse, daughter or son, to make medical decisions for you if you are no longer able to make medical decisions for yourself, or you are unable to communicate your preferences. (**Note:** A medical power of attorney is not the same as a power of attorney, which gives another person the authority to act on your behalf on matters you specify, such as handling your financial affairs.)

- ☐ **Will your estate have sufficient liquidity to pay estate settlement costs and any taxes due at your death?** If not, your executor may have to quickly sell assets in order to pay these expenses. Another alternative is to purchase life insurance, the proceeds of which can provide instant liquidity at your death.

- ☐ **Have you considered making gifts to loved ones during your lifetime?** A lifetime gifting program is a simple way to reduce estate tax liability.

- ☐ **Do you want to include one or more charities in your estate plan?**

- ☐ **If you own your own business,** do you have a plan in place for successor ownership at your death, disability or retirement?

- ☐ **Where are your estate planning documents located?** Appendix B contains a document inventory that you can use for this purpose.

Monthly Income

Income	**Budget Amount**	**Actual Amount**
Salary and Bonuses	$ ________	$ ________
Interest/Investment Income	$ ________	$ ________
Other Income	$ ________	$ ________
Income Sub-Total:	$ ________	$ ________
Income Taxes		
Federal Income Taxes	$ ________	$ ________
State Income Taxes	$ ________	$ ________
FICA/Self-Employment Taxes	$ ________	$ ________
Income Taxes Sub-Total:	$ ________	$ ________
Available Monthly Income:	$ ________	$ ________

Monthly Fixed Expenses

Housing	**Budget Amount**	**Actual Amount**
Mortgage/Rent Payment	$ ________	$ ________
Property Taxes	$ ________	$ ________
Homeowners/Renters Insurance	$ ________	$ ________
Transportation		
Car Payment	$ ________	$ ________
Automobile Insurance	$ ________	$ ________
Parking/Tolls/Bus/Train	$ ________	$ ________
Loans		
Credit Card Payments	$ ________	$ ________
Personal Loan/Student Loan Payments	$ ________	$ ________
Insurance		
Life Insurance Premiums	$ ________	$ ________
Disability Income Insurance Premiums	$ ________	$ ________
Health/Dental Insurance Premiums	$ ________	$ ________
Personal/Family		
Child Support/Child Care	$ ________	$ ________
Expenses/Alimony	$ ________	$ ________
Membership/Professional Dues	$ ________	$ ________
Savings/Investments		
Emergency Fund	$ ________	$ ________
Personal Savings/Investments	$ ________	$ ________
Retirement Savings (401(k) or IRA)	$ ________	$ ________
Other Fixed Expenses	$ ________	$ ________
Total Fixed Expenses:	$ ________	$ ________

Monthly Variable Expenses

Housing	**Budget Amount**	**Actual Amount**
Utilities (electricity, gas, water)	$ ______________	$ ______________
Telephone/Internet	$ ______________	$ ______________
Home Repair/Maintenance	$ ______________	$ ______________
Household Goods/Furnishings	$ ______________	$ ______________
Transportation		
Fuel	$ ______________	$ ______________
Auto Repair/Maintenance	$ ______________	$ ______________
Parking/Tolls/Bus/Train	$ ______________	$ ______________
Personal/Family		
Food/Personal Care Items	$ ______________	$ ______________
Clothing	$ ______________	$ ______________
Laundry/Dry Cleaning	$ ______________	$ ______________
Doctor/Dental/Prescription Drug Expenses	$ ______________	$ ______________
Gifts/Charitable Contributions	$ ______________	$ ______________
Pets (food, grooming, vet, boarding)	$ ______________	$ ______________
Entertainment		
Cable/Satellite TV	$ ______________	$ ______________
Dining Out	$ ______________	$ ______________
Subscriptions/Dues	$ ______________	$ ______________
Movies/Sporting Events	$ ______________	$ ______________
Hobbies	$ ______________	$ ______________
Vacation/Travel	$ ______________	$ ______________
Other Variable Expenses	$ ______________	$ ______________
Total Variable Expenses:	$ ______________	$ ______________

Monthly Balance Sheet

	Budget Amount	**Actual Amount**
Available Monthly Income	$ ______________	$ ______________
Total Fixed Expenses	$ ______________	$ ______________
Total Variable Expenses	$ ______________	$ ______________
Monthly Surplus/Shortage:	$ ______________	$ ______________

Appendix B: Document Checklist

Document	Location
Personal:	
Birth Certificate	
Marriage License	
Pre- or Post-Nuptial Agreement	
Will	
Trust(s)	
Living Will(s)/Power(s) of Attorney	
Mortgage Papers	
Automobile Titles/Papers	
Income Tax Returns	
Gift Tax Returns	
Insurance Policies	
Employee Benefit Documents	
Passport	
Military Records	
Medical Records	
Citizenship Papers	
Warranties	
Current Bills	
Funeral/Burial Documents	
Other: ______________________________	
Business Ownership:	
Partnership/Incorporation Documents	
Buy-Sell Agreement	
Section 303 Stock Redemption Agreement	
Business Valuation/Appraisal	
Business Tax Returns	
Other: ______________________________	

It is recommended that you keep the following documents in a secure location in your home:

- Copies of wills and trusts
- Copies of living wills and powers of attorney
- Income tax returns

These documents are best kept in a bank safety deposit box:

- Original wills, trusts and powers of attorney
- Marriage certificates, birth certificates, divorce decrees, death certificates
- Deeds and car titles
- Military discharge papers
- Any stock or bond certificates
- Citizenship papers
- Insurance policies

Consider giving these items to your attorney, executor and/or spouse:

- Living will/medical power of attorney (original should be given to the agent named in the document)
- Copies of wills, trust agreements, powers of attorney
- Inventory of insurance and investments
- List of professional advisors (attorney, accountant, insurance agent, etc.)
- Safety deposit box access information
- Funeral instructions

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